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Business this week

Jan 18th 2001
From The Economist print edition

Squeezing oil

OPEC agreed to cut oil-production quotas by 1.5m barrels a day. Saudi Arabia, the leading oil producer, suggested that more cuts might be considered to keep the price near $25 a barrel.

See article: OPEC cuts its oil quotas

Paul O'Neill, George Bush's Treasury secretary-designate, said that he favoured a **strong dollar**, no doubt hoping to scotch suggestions that he was a friend of exporting manufacturers. On cue, the **yen** fell to its lowest level against the dollar for 17 months, breaking through ¥119 in intraday trading. The **euro** also fell back against the dollar, reversing recent trends; but it went above ¥113 for the first time since October 1999.
See article: Economics focus on the desirable weakness of the yen

EU plans to **liberalise trade** with the world's poorest countries are down if not out. Following complaints from farm lobbies, Pascal Lamy, Europe's trade commissioner, pushed back a proposed transition period for his "everything but arms" market-opening to 2006-08. The original plan was to eliminate tariffs on most goods by 2004.

America's industrial production fell by 0.6% in December. The monthly fall was the largest since June 1998 and the third in a row; more evidence that the economy is slowing. Prices rose in December by 0.2%, and were up 3.4% for the year. Markets expect that the Fed will soon cut interest rates again.

Get De Beers in

De Beers, a company that controls two-thirds of the world's rough-cut diamonds, announced a joint venture with **LVMH**, a French luxury-goods conglomerate, to sell branded diamonds. The new company will use the De Beers name to market finished diamond jewellery to the wealthy. It will not source the gems directly from De Beers but will obtain them from top diamond polishers.

Robert Hendry, the chairman of **Adam Opel**, General Motors' German subsidiary, is to resign in March, after Opel announced that it made operating losses of DM982m ($463m) last year. Mr Hendry, brought in to turn the company around, had promised that Opel would be profitable by 2000.
See article: Opel's problems deepen

Opel's bad results contributed to a sharp fall in **GM**'s fourth-quarter profits of 51%. The car maker blamed losses in Asia as well as Europe. Ford too reported a 33% fall in fourth-quarter profits.

Nestlé, a Swiss food company best known for its chocolate and coffee, agreed to pay $10.3 billion for Ralston Purina, the world's second-largest pet-food firm. The addition of the Purina brand to Nestlé's Friskies, Fancy Feast and Gourmet will make the Swiss company a global leader in dog and cat food, a market worth some $25 billion a year.

Schneider Electric, a French electric-components company that makes items such as light switches for home and business use, acquired **Legrand**, a French rival, for shares worth *euro*6.7 billion ($6.3 billion). Schneider was rumoured to have been a target for Switzerland's ABB and Germany's Siemens. European regulators may insist on divestments before approving the deal.

Chiquita, an American banana company, said it would miss some debt repayments and would restructure its finances by swapping debt for equity. It blamed a change in EU rules for banana trading for its decision and vowed to fight other changes that could worsen its transatlantic trade.

Tomkins, a British conglomerate, said that it was talking to two American gun companies about getting shot of its Smith & Wesson handgun unit. Tomkins paid $112m for the gun company in 1987 but expects to recoup considerably less; the company carries contingent liabilities as it and other gun makers are pursued for compensation through America's courts.

Low power

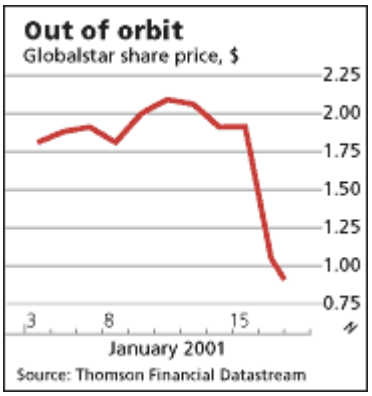
California's power crisis worsened as blackouts began and the governor declared a state of emergency. Southern California Edison, one of the electricity companies facing bankruptcy, defaulted on debt repayments of $596m. Its credit rating and that of another big Californian utility, Pacific Gas & Electric, both reached junk status.
See article: California's power crisis

E.ON, a German utility, exercised an option to sell 45% of **Viag Interkom** to **British Telecom** for *euro*7.3 billion ($6.8 billion). BT will own all of the German mobile and fixed-line telecoms company on completion of the purchase of a 10% stake from Telenor, a Norwegian telecoms company, announced in December.

E.ON is in discussion with **PowerGen**, a British electricity-generating firm, which could lead to a takeover for perhaps £5.2 billion ($7.7 billion). The British company accounts for 14% of the domestic market and recently acquired LG&E, an American generator. This would help E.ON to expand in Europe and the United States. However, other utilities may also bid for PowerGen.

Satellite state

Globalstar Telecommunications, a satellite-phone company, suspended debt repayments and dividends to husband its dwindling supplies of cash. The company denied that it was heading for bankruptcy; but it has secured only 35,000 of the 1m subscribers it needed to break even. In recent years two other satellite-communications companies, Iridium and ICO Global, have crashed to earth.



A three-way deal was announced between **Telecom Italia Mobile**, Japan's **NTT DoCoMo** and **KPN** of the Netherlands to develop wireless Internet services across Europe.

Intel, the world's biggest chip maker, is to pay $748m for **Xircom**, a company that makes devices allowing mobile computers to link to corporate networks. Intel hopes that booming demand for this type of equipment will offset a possible slowdown in chip demand in coming years.

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The world this week

Jan 18th 2001
From The Economist print edition

Heart of darkness

AP

Congo's president, **Laurent Kabila**, was shot and killed by one of his own soldiers. The Congolese authorities delayed announcing his death, but then announced that his funeral would be on January 23rd. His eldest son, Major-General Joseph Kabila, was reported to have taken over. Rebel fighters demanded places in any new government.

See article: Congo after Kabila

Fighting worsened on the border between **Guinea and Liberia**. Fleeing aid workers spoke of more rebel attacks and of thousands of displaced civilians.

Nigeria auctioned three licences to run mobile-phone systems in a country where telecommunication is normally abysmal.

Eight **Iranian reformists** were sentenced to long prison terms, most of them because they had gone to a conference in Germany attended by Iranian exiles. Germany, and the European Union, protested.
See article: Iran's harsh justice

Kuwait's Constitutional Court followed a lower-court ruling, and parliament's wishes, in refusing to allow women the vote.

In the last days of Bill Clinton's presidency, **Yasser Arafat** and Israel's foreign minister, Shlomo Ben-Ami, met in Egypt. Meanwhile, violence continued, including the killing of the head of Palestinian television, apparently by a Palestinian group.

Estrada escapes?

The Senate trial of Joseph Estrada, president of the **Philippines**, was suspended indefinitely when prosecution lawyers resigned over a decision to bar evidence regarding the president's bank accounts. There were mass protests in the capital, Manila.
See article: Estrada's escape?

Several thousand Muslims protested violently near Srinagar in **Kashmir**. The unrest was over the deaths of militants who were killed this week during a failed attack on the town's airport.

EPA

Two (barely) teenage rebel fighters from Myanmar, Luther and Johnny Htoo, were captured in **Thailand** along with a small army they led. They have been blamed for attacks along the border between the two countries.

More than 90 people died in fierce fighting between Tamil rebels and the army in a northern pass in **Sri Lanka**.

Britain's House of Commons voted to ban **fox-hunting**. The House of Lords, the second chamber, will try to overturn the measure.
See article: Banning fox-hunting

Ashcroft pleads

John Ashcroft, George Bush's nominee for attorney-general, faced a severe grilling from Democrats during his confirmation hearings in the Senate. They feared he would allow his strong Christian views to influence his enforcement of settled laws, such as those allowing abortion.
See article: George Bush and John Ashcroft

Mr Bush said that he planned, for the first time, to add **economists** to the staff of the National Security Council. He also asked George Tenet, the present director of central intelligence, to stay in the job indefinitely.

EPA

As many as 1,200 people appeared to have died in an earthquake in **El Salvador**, many of them after a mudslide had buried part of a middle-class suburb built on a deforested hillside near the capital, San Salvador.
See article: Lessons from El Salvador's earthquake
A constitutional crisis hit **Trinidad and Tobago**. The president refused a request from Basdeo Panday, the prime minister, to appoint seven of his party's candidates defeated in last month's election as senators. The opposition has asked the courts to disqualify two elected members of parliament.
See article: A constitutional row in Trinidad

Talking out of turn

President Vojislav Kostunica of **Yugoslavia** annoyed reform-minded members of the incoming government of Serbia (the biggest part of the Yugoslav federation) by holding talks with his predecessor, Slobodan Milosevic, without telling them in advance.

Mr Kostunica also said he would not meet **Carla Del Ponte**, chief prosecutor of the UN's war-crimes tribunal in The Hague, when she visits Belgrade, Yugoslavia's capital, later this month.

Acting on a warrant issued in Switzerland last year, police in New York arrested a Russian, Pavel Borodin, who managed the **Kremlin** under its former president, Boris Yeltsin. If extradited, Mr Borodin faces money-laundering charges.

Germany's foreign minister, Joschka Fischer, gave evidence for the defence in a Frankfurt court where an old friend from his days as an agitator, Hans-Joachim Klein, is being tried for taking part in a terrorist attack on OPEC ministers in Vienna in 1975.
See article: Charlemagne: Joschka Fischer, Germany's forgivable foreign minister
The European Parliament, seeking to find an EU-wide solution to BSE, or **mad-cow disease**, proposed that all cattle more than 30 months old should be tested for infection. Italy identified its first case of the scourge.
See article: The EU tackles mad cows and uranium
The European Parliament also voted for a moratorium on the use of weapons made with **depleted uranium**.
See article: The EU tackles mad cows and uranium

Reuters

Jorge Sampaio, a Socialist, was easily re-elected president of **Portugal**, with 56% of the vote.

See article: Portugal’s amiable president

Norway said it would lift a ban on exports of whale meat and blubber, despite the long-standing international ban on whaling.

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And now to work

Jan 18th 2001
From The Economist print edition

"THAT night we almost danced our feet off at ten different inaugural balls. The next day, the celebrating was over and it was down to work. I had come to Washington with my mind set on a programme, and I was anxious to get started on it." This was the matter-of-fact way another conservative governor with a short attention-span set about governing America. Some of what Ronald Reagan then did was not to everybody's liking; but nobody doubted that he had a clear programme. This weekend George Bush dances; then he too sets to work.

It is easy to be cynical about his prospects. Unlike Mr Reagan, Mr Bush won the narrowest of victories—and quite a lot of his opponents would even dispute that achievement. Still fuming about the Florida recount, the Democrats have already claimed their first scalp, forcing the withdrawal of Mr Bush's original nominee for labour secretary, Linda Chavez; now they are aiming their fire at John Ashcroft, his conservative choice for attorney-general.

Mr Bush also inherits a country which may—note the qualification—be on the edge of a harsh economic downturn. Under Bill Clinton, many of the divisions that still beset the United States (see article) were hidden by the balm of prosperity. Now they may reappear, just when America has also to start reforming its government in time for its demographic time-bomb: without structural change, by 2010 the government will begin to run out of money to pay for the pensions and health care that baby boomers like Mr Bush expect. Add the chance of a nasty foreign-policy surprise (Iraq? North Korea? Congo?), and it is not surprising that some people see this presidency as a poisoned chalice.

Work with a capital Dubya

This surely underestimates both the job and the man. Most countries would love to have America's problems; and most of their politicians would do far worse to have just a fragment of the power Mr Bush now wields. As for Mr Bush, he has appointed an efficient-looking cabinet (albeit one that might usefully have had a more bipartisan flavour). And, unlike Mr Clinton, he has made his legislative priorities clear. Mr Bush will concentrate on the five issues that he has talked about since the primaries—Social Security, education, health care, a big tax cut and a missile-defence scheme.

Before discussing the merits of these plans, it is worth noting that a similar approach worked in Texas. When he became governor in 1995, Mr Bush concentrated, as promised, on just four things. Through a mixture of cajolery and compromise, he got broadly what he wanted. More important, he also did so in an "inclusive" way. His education reforms certainly pleased the right, but the people they really benefited were the poor and immigrants, two normally Democratic constituencies.

This combination of efficiency and inclusiveness would be particularly useful now, and not just because of the possibility of that economic downturn. Only two years hence, the Republicans have to defend their wafer-thin majority in congressional elections: they had better have something to show the American people. Can Mr Bush deliver the goods?

Begin with the assumption that Mr Bush's laundry-list of five issues must shorten. Most presidents count themselves lucky to get one or two significant bills through Congress in their early years, and Mr Bush's honeymoon may be particularly short. Where should he scale back his ambitions? *The Economist*'s preference is for him to concentrate his political capital on the three thorniest subjects—education, health care and Social Security reform.

This is not to decry his other two goals. The doubts about Mr Bush's plan to build an anti-missile shield have more to do with feasibility and timing than with principle. If America can build an effective shield against rogue states, it will do so. Outsiders cannot demand that a country give up a method of protecting itself—particularly if it offers them the same protection, as Mr Bush says he will. On the other hand, the technology plainly is not ready; so far, the tests have been embarrassing. And there are also diplomatic reasons for caution: pressing ahead precipitously would throw away a potential deal with Russia to change the anti-ballistic-missile treaty (which obliges the two to renounce anti-missile defence) and might provoke China into sharply increasing its own long-range missile force. A big new policy needs a sure foot.

With Mr Bush's plan for a $1.6 trillion tax cut, the problem is one of scale. Cutting taxes is a good thing: the burden of proof should generally fall on politicians who want to take voters' money, rather than those who want to give it back. Mr Bush's father paid dearly for breaking his promise and raising taxes, so Mr Bush must deliver something. And, as it happens, the case for fiscal easing has improved somewhat. While the economy soared, a huge tax cut looked recklessly inflationary; now the economy is wobbling, it looks less dangerous.

So cut taxes, by all means; but not $1.6 trillion-worth. And look for ways to do so that chime with that inclusive side of Mr Bush's political character. The current plan gives 60% of the proceeds to people who earn more than $100,000. Rather than cutting top rates of tax, it would be better to raise even further the thresholds for poorer taxpayers. Push ahead with the plan to abolish the marriage penalty (which penalises almost all who decide to get hitched), but hold back the abolition of inheritance tax (which affects only the very rich).

Scaling back his ambitions would leave Mr Bush more political capital and money to concentrate on the social reforms that should be the heart of his legacy. America's public schools are a disgrace: one in four children in their last year of high school is illiterate. Imposing standards and making teachers accountable are sensible reforms. Mr Bush should also try to encourage more experimentation with school vouchers—something the teachers' unions hate but parents (particularly poor ones) seem to want.

Medicare and Social Security are the two systems that are most vulnerable to the country's demographics. On health, Mr Bush has made respectable noises about introducing market reforms, but he has said too little about the problem of the 44m poorer Americans with no health cover at all. Mr Bush's plan to privatise the pay-as-you-go Social Security system, allowing people to invest a tiny portion of their pension in retirement accounts, is still probably not radical enough. But in a country where the number of taxpayers per tax beneficiary looks likely to fall from 3.4 to 2 by 2040, it would start a debate that America sorely needs to have.

Defined contribution schemes, prescription-drug benefits, adult-literacy levels: this is hardly glamorous stuff, even if you throw in a Reaganesque tax cut. But they matter enormously—and they will be devilishly hard to achieve. Mr Bush's dancing days are numbered.

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Kabila's Congo

Jan 18th 2001
From The Economist print edition

However hard, it is worth trying once more to bring peace to Congo. Putting the country together again will be even harder

Get article background

AP

THE passing of Laurent Kabila from the Congolese presidency—and probably also, despite all the confusion, from the wider world—will not be mourned by many. Though hailed as a "new breed" of African leader, his path to power was a trail of blood, and he ruled with all the venality, incompetence and arbitrariness of the worst of the old breed. Still, for anyone tempted to help the wretched people of Congo, it is much less easy to say what should be done after the despot's demise than what should not.

The first action to be avoided is the sending of a UN intervention force. The people of Congo richly deserve peace and stability. Their country has been plundered for over a century, first by Belgians, then by Africans. Latterly, it has been torn by civil war. By one reckoning last June, 1.7m people had lost their lives as a direct or indirect result of two years of fighting in eastern Congo alone. Many more than that have been made refugees. But Congo, a country the size of Alaska, Colorado and Texas put together, or most of Western Europe, is no place for peacekeepers right now. Despite an agreement signed in Zambia in July 1999 by all the parties to the civil war, none has shown any zeal for peace. The country is divided, with the east contested by various rebels supported by Uganda and Rwanda, and the west only just under the sway of what has passed as Mr Kabila's government, a ragtag affair propped up by Angola, Namibia and Zimbabwe (see article). There is no peace to keep, and imposing one would be well nigh impossible for outsiders in a country of numberless ethnic groups and almost no infrastructure. The UN has difficulties enough with its force in Sierra Leone. Appeals for intervention in Congo are utterly unrealistic.

Appeals to the governments of the neighbours sucked into Congo's war may, however, be less so. However cynical they may remain, some at least are now wearying of their involvement. Uganda's role is not popular among its voters, who are due to take part in a presidential election early in March. Zimbabwe's role is even less popular and, more seriously, financially unsustainable in the world's fastest shrinking economy, for all its talk of sending more men. That does not mean that all the neighbours will now turn away. Rwanda will remain anxious to deny the Hutus who were responsible for the 1994 genocide and are now living in Congo the opportunity for any further killing. And Angola may perhaps see an opportunity to assert itself as a regional superpower, imposing a more biddable government and getting its hands on Congo's oil and other mineral wealth.

Even a few years of solitude

Such an outcome would be little more palatable than Syria taking over Lebanon, or Vietnam taking over Cambodia, and very much messier, given that the Angolan government has yet to show that it can gain control of even its own territory. In the circumstances, it is tempting to think that Congo would be best left to disintegrate. After all, some provinces, such as diamond-bearing East Kasai, were in effect almost independent five years ago, at the end of Mobutu Sese Seko's kleptocracy, and not doing badly. Unfortunately, most would probably become the fiefs of thieves and warlords.

If the Congolese are not yet able to take control of their own destiny, and the immediate neighbours are suspect, better then that benign outsiders should become involved. Africa's two other giants, South Africa and Nigeria, acting with other Africans, the UN and as many rich countries as possible, should try to convene another peace conference. They should make it plain to Mr Kabila's successor, whoever he

turns out eventually to be, that he will get no help unless he behaves better than Congo's past two presidents. And they should at the same time put pressure on the neighbouring governments to stop their destructive meddling in Congo. The war there blights the entire continent. For the sake of all Africans, not just the Congolese, it is time to bring it to an end.

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Northern Ireland's lessons

Jan 18th 2001
From The Economist print edition

An accident of history has provided the United Kingdom with something like a controlled experiment in education. It shows that selection works

PRETTY much everything has gone wrong for Northern Ireland over the past few decades. Conflict has divided its society, terrorists have bombed its towns, and the decline of manufacturing has hit its economy. But there has been one bright spot amid the gloom: education. Countries wrestling with under-performing state education systems would do well to pay attention to the lessons from Northern Ireland.

Until 30 years ago, Britain had a two-tier education system, in which "grammar" schools selected clever pupils at 11, and the rest were dispatched to "secondary moderns". It fell out of favour because governments came to believe that it benefited middle-class children geared up to do well in exams, while working-class children were condemned to failure. As a result, in the course of the 1960s and 1970s, in most of England, Wales and Scotland, the selective system was replaced by a comprehensive one. These days, geography, not brains, determines which school most British children go to.

However, Northern Ireland, which even then ran its own education policy, chose not to change. Selection had been introduced in Northern Ireland only in 1947, and was regarded as progressive, rather than regressive; what's more, changes in social policy in the province tend to get stuck in the mire of sectarianism, and education is a sensitive issue. So, over three decades during which the rest of the country has shifted to a comprehensive system, Northern Ireland kept selection.

But since Northern Ireland got its own government in 1999, there have been calls for change. Many Northern Irish argue, as the English did 30 years ago, that selection disadvantages the poor. Since in Northern Ireland Catholics are disproportionately poor, and the new political dispensation gives Catholics power they never had before, selection is a particularly hot potato. An independent review body is looking at the issue, and is due to report in four months' time; but the argument over education is already escalating. Last week, Martin McGuinness, the education minister, announced plans to end the publication of league tables of schools. League tables were introduced by Britain's Conservative government in 1992, in order to expose underperforming schools and raise standards by encouraging competition.

Worse for the worst-off

Politicians calling for change should look closely at how well Northern Irish schoolchildren perform (see article). In England, the number of children with five grade A GCSEs (the exam for 16-year-olds) and the number with two passes at A-level (the exam for 18-year-olds) has increased only slowly. In Northern Ireland, which started from a lower base in the mid-1960s, the improvement in standards has been sharper. In both exams, Northern Irish children now get markedly better results than those in England.

The most compelling argument against selection has always been that it makes the worst-off worse off. But Northern Ireland argues against that. In England, 6% of pupils leave school with no graded GCSEs; in Northern Ireland, the figure is 3.5%. The comprehensive system is failing even the vulnerable it purports to protect.

Part of the impetus for change in Northern Ireland comes from the perception that, over the past 40 years, most rich countries have shifted from a selective to a comprehensive system, and they can't all be wrong. Actually, they can. There is widespread concern about the failings of the comprehensive system in several countries, especially in America. In Britain, the political parties have been wrestling with the difficult issue of whether to move back towards selection. Northern Ireland's experience is a powerful argument for doing so.

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Sweeter Basle

Jan 18th 2001
From The Economist print edition

Proposed new rules on how much capital banks must put aside against their risk-taking are a step in the right direction

BANK capital requirements may sound arcane and achingly dull. Yet the amendments to the 1988 Basle Accord announced this week are hugely important; and their potential effects are anything but dull. As Bill McDonough, president of the Federal Reserve Bank of New York, who is also chairman of the Basle committee, points out, countries with healthy banking systems survived the Asian financial crisis in 1997-98 much better than those with sickly ones. “The banking system serves as a shock absorber; if the shock absorber is worn out, then the shocks are magnified.”

Nor is it only emerging economies that need to revise their regulation of banks. A big reason why Mr McDonough wanted to bring in new rules is that sophisticated American banks have found so many ways of getting round the old ones. Banks have been taking massively more risk for a given amount of capital, because the old rules encouraged this. Larry Meyer, another Federal Reserve governor, put it in stark terms last June, when he said “I am concerned that regulatory capital...is becoming a safety and soundness irrelevancy, and simply a compliance requirement.” Sure enough, American banks’ bad loans have mounted alarmingly in recent months, stoking fears of a credit crunch, because they have been taking ever-bigger risks. As the economic outlook darkens, making banks everywhere safer is in everybody’s interests.

The new rules go a long way towards doing this. The original accord fixed banks’ capital at 8% of their risk-weighted assets. But this riskiness was assessed only in four crude “buckets”. The new rules tie banks’ capital more closely to the actual risks they are taking (see article). That should create a stronger incentive for banks to adopt better risk-management, because they will be rewarded with lower capital requirements. The new rules propose three pillars to keep a check on them: the risk-based capital rules, better and more stringent supervision, and more market discipline, which includes greater disclosure and transparency. Bad banks are rarely penalised for taking more risks, thanks to government deposit-insurance, privileged access to bail-out funds from central banks, and a perception that they are too big to fail. The new rules should make risk-taking more expensive.

They should also help to reduce perverse incentives. At present banks have an incentive to lend to riskier credits when the capital they think they should set aside is more than regulators demand; and the reverse is also true. By aligning regulatory capital with the amount that banks actually think that they should have, such arbitrage should be diminished. An earlier proposed draft revision suggested that the best way of doing this would be to link banks’ capital to scores produced by external credit-rating agencies. But, because there are often problems over external ratings (not least, that such ratings are scarce in many countries), the committee has now decided that it will often be preferable to use internal ratings—those that the banks calculate themselves.

Internal risks

This is not without its problems, either. Originally it was an idea with little content; the blurb on internal ratings in the revised proposals was concocted in little more than a day. But there are more substantial reasons for doubt. Might the use of internal ratings cause a net reduction of the stock of capital in the banking system—which Mr McDonough stresses is not the intention? What about the risk that reliance on internal ratings may aggravate economic cycles, because loan standards will be relaxed during booms and tightened during busts? How can you judge one bank’s ratings against those of another in the same country—let alone between banks in several countries, with their differing accounting and regulatory regimes? And how do you compare these ratings with the standard approach, or with external ratings, which will still be used in many cases?

These remain tricky questions, but the committee's desire to do the right thing has come out with some reasonably robust answers. So successful does it think it has been, indeed, that it wants to shoehorn as many banks as possible into using internal ratings. It can still ensure that total capital does not fall. And it has also come up with an answer to the vexed question of how a bank should put aside capital against so-called "operational risk"—eg, if its systems foul up.

Lots of details in the revised rules remain to be filled in before the end of the year; and the new accord will not be enforced until 2004. One big difficulty is that, like the 1988 accord, the new proposals are backward-looking. Banks will find ways round them; a creative industry always finds new ways of taking risks. The search for more market-based controls, including getting subordinated-debt holders to discipline banks, should continue. But overall, the new plans are a useful step in the direction of safer banks.

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Partners of inconvenience

Jan 18th 2001
From The Economist print edition

China and Russia are friends again, up to a point

Reuters

SHOULD the new get-together between Russia and China rattle the rest of the world, rather as their great bust-up shook the communist world during the cold war? This week China deliberately let slip that these two former rivals are drafting a formal treaty of peace and friendship. Though the treaty will not be ready for signing for months, China clearly wants it known, as America gets an assertive-sounding new president, that China and Russia are big noises too, with their own agenda for a multipolar world. Indeed, the "strategic partnership" that they have recently written into every joint communiqué has already spelt trouble for the West.

Unlike the 1950s and 1960s, when China and the Soviet Union found themselves divided by a common ideology and united by not much else, the start of the 21st century finds them thrown together by shared interests. One is a grudge at western, especially American, influence in the post-cold-war world. Russia opposed NATO's embrace of Poland, Hungary and the Czech Republic; China has resented the strengthening of America's alliance with Japan. Both railed at NATO's bombing of Serbia, having kept mum over Serb aggression in Bosnia and Kosovo, worrying that Russia's bloody war in Chechnya or China's repression in Tibet and its threats against Taiwan could someday likewise provoke a western military response. And both have so far shrilly opposed America's plans for some sort of national missile defence.

As Russia and China have found more common causes, they have also provided cover for each other's mischief-making. Despite Iraq's repeated failures after the Gulf war to surrender all its weapons of mass destruction, as UN Security Council resolutions demanded, both China and Russia were early campaigners for restraints to be lifted. Despite formal and informal promises to the contrary, both have supplied dodgy clients in the Middle East or in Asia with missile and nuclear technology.

The most troublesome aspect of their "partnership", however, has been Russia's sales of advanced ships and aircraft to China. These could be used in a confrontation over Taiwan, or to assert China's claims to sovereignty over vast swathes of the South China Sea. Though China is still a long way from rivalling America's military power in Asia, its weapons purchases from Russia run at $1 billion a year, making it probably the largest single customer for Russian arms bar none, including Russia's own cash-strapped army.

Why does Russia do it? After all, it shares a border of more than 4,000 kilometres (2,500 miles) with China and a history of sometimes bloody enmity. The answer is that so far Russia has seen its weapons sales, somewhat limited in quantity if not in lethality, as more of a threat to western interests than to its own. That could prove a costly mistake. Its own generals worry that they may someday have to confront Chinese forces equipped with more modern Russian fighters and bombers than they have themselves. Russia's underpopulated borderlands in the east are already an uneasy magnet for Chinese immigrants, who number some 2.5m.

There are thus natural limits to Russia's longer-term friendship with China. Mutual suspicion is one. Another is Russia's aspiration to stand tall among the democracies—somewhat disguised for now, it has to be said, by Vladimir Putin's smack of firm government. A third is multipolarity itself. The closer Russia and China stand, the more Japan will look to America for reassurance against its two biggest rivals. India has already pooh-poohed joining a Russia-China axis, preferring genuine multipolarity to a big-power embrace.

The points of departure

Meanwhile the Russia-China friendship lacks real economic foundation: their combined trade last year was less than half its $20 billion target, compared with China's more than $100 billion trade with America. Similarly, while China wants to block all missile defences, even quite limited regional ones, Russia has offered to collaborate with both America and Europe on the limited sort. The Bush administration might push the two closer, yet—depending on what it actually proposes—Russia could still consider a deal on modest if more effective defences, so long as its own nuclear deterrent were left unscathed.

The truth is, rhetoric to the contrary, that both China and Russia still have a lot more to gain from economic and political engagement with outsiders, including America, than from a resentful huddle—whatever their new treaty may say.

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When the lights go out

Jan 18th 2001
From The Economist print edition

Don't blame deregulation for the chaos in California's electricity-supply industry. Blame "deregulation"

Get article background

YOU cannot help but notice what a bad name deregulation has with voters—not just in the United States, where it is suffering its latest mighty embarrassment, but all over the world. Those nationalised industries and closely commanded semi-private enterprises of yesteryear were such paragons of efficiency and anxious attention to customers' needs, were they not? And their services were always such a bargain, don't forget, at a cost to taxpayers through subsidies and underwritten losses rarely adding up to more than billions of dollars. It wasn't broke, this old-fashioned way of delivering essential public services, but for some reason it had to be fixed. Along came short-sighted politicians, in the grip of the latest ideological fashion, bowing down to laisser faire and other such nonsense, and look what happened.

In the mid-1990s, California saw itself as the cutting-edge of utility deregulation. The old monopoly providers of electricity were radically restructured. Henceforth, suppliers and consumers would meet in a marketplace, trading electricity for transmission to consumers. That sounded a lot like capitalism. Now look at the mess.

This week, after months of turmoil and mounting fury, one of the state's biggest utilities, Southern California Edison, said it would not make payments of $596m owed to creditors. Bankruptcies loom. A long-threatened programme of rolling blackouts, triggered as the state's reserves of power were exhausted, came into effect on January 17th. Gray Davis, California's governor, has declared a state of emergency and talks of stern remedies, including expropriation of assets and forthright re-regulation. What a shambles (see article). Evidently, markets have their limits.

Hang on a minute. Markets do have their limits, but California's so-called deregulation of electricity has little light—if you will forgive the expression—to shed on them. The reason is that the system was not in fact deregulated. It would have been possible, as a long-term aim, simply to abolish the old monopoly protections and dismantle the command-and-control apparatus. The utilities rejected that because it would have left them with lots of uneconomic power-generating capacity acquired under the good old days of the previous regime; they wanted compensation for those "stranded assets". Organisations claiming to represent the interests of consumers rejected it as well because they wanted implicit subsidies to particular groups to continue (which meant keeping the cost hidden) and because they feared the untrammelled monopoly power of the liberated suppliers.

The upshot was an overweening regulatory scheme slapped on top of a supposedly market-based system. One feature, rate freezes, is chiefly responsible for the present emergency: it has obliged suppliers (to their surprise) to sell power at a small fraction of the price they have to pay for it. Of course, the risk that costs would rise much faster than they could be passed along to consumers was foreseeable—and could perfectly well have been hedged in financial markets. That was not allowed. So much for market forces.

Unnatural acts

If electricity supply were a natural monopoly it would be right to worry that deregulation might go too far, to consumers' cost. The fact is, it is not a natural monopoly.

With the advent of micropower generation, the industry no longer has lower costs only at large scales of production. Small is feasible. The scope for local production also undercuts the natural-monopoly aspects of transmission across the grid. Consumer groups have always worried that, without regulation, the big gains from market-priced power will go to companies not individual consumers. Corporate customers will command discounts and negotiate clever cost-reducing contracts based on real-time monitoring of demand and congestion-pricing, none of this yet available to ordinary buyers. So what? If the benefits of cheaper electricity flowing from genuine deregulation go mainly to companies, fine: their costs will fall, and the savings will be passed on in the prices of their own goods and services. That is how markets work.

Sometimes, no question, genuine deregulation has gone wrong. But that is not the lesson from California. What happened there was “deregulation”—guided on one side by the utilities’ desire to rig the market and on the other by a conviction that unrigged markets are out to screw consumers. The result was a partial, muddled and self-contradictory plan, leading eventually to this week’s debacle. Next time, forget “deregulation” and try the real thing.

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Letters

Jan 18th 2001
From The Economist print edition

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Great age

SIR—You dismiss life extension for "seen-it-all-before, weary crumblies" ("Who wants to live for ever?", December 23rd). So overachievers and the handicapped should die young because they have either seen it all or are physically weary? Social acceptance changes over time. Cicero, whom you quote, surely thought 50 years of life good enough. Today, everyone hopes for 70 years. In the future, society may accept 150 or 500 years.

Just as we seek alternative fuels rather than banning cars, we need alternatives to handling population growth rather than pretending nobody wants longer life. The vast majority of the elderly choose life over death, even when it requires expensive and invasive medicine. Young people should support life extension rather than waxing poetic about a choice they have never faced.

JONATHAN MONSARRAT
Cambridge, Massachusetts

SIR—You overlook the fact that the genetic manipulations required to lengthen life could well be accompanied by the capacity to improve intelligence and memory greatly. With proportionately fewer young people in the population we could afford to educate all citizens more widely and deeply to be better at processing information, rejecting bad leadership and at responding logically to circumstances. The acquisition of scientific knowledge and the rate of technical progress should increase by leaps and bounds.

People would then be more inclined to act with a long-term view, more careful to avoid exhausting non-replaceable resources, more ingenious at adapting to the physical and social environment, and more willing to invest in the survival of the human species. We would cease to be short-run maximisers who ignore long-run consequences. Degeneration and death is such a waste of human talent.

ROBERT LIGHTBOURNE
Metuchen, New Jersey

Sainsbury's facts

SIR—Your journalist, Adam Raphael, telephoned me on the morning of January 4th to say that he had heard that I was giving £2m to the Labour Party and asked whether this was correct. I confirmed that it was and told him that the Labour Party was about to issue a press release. I have learned subsequently that Christopher Ondaatje, who was the source of your story, had agreed specifically with your arts editor that she would not publish the information about his donation until the planned announcement by the Labour Party later in the day. To suggest, therefore, as you do in your article, that the Labour Party made the announcement because *The Economist* had the information is knowingly to distort the facts ("Cash for Labour", January 6th).

You also say that it was my intention to keep my donation a secret. You have no basis for making this statement. When I made my last donation to the Labour Party I made it public, even though there was no legislation requiring me to do so, because I thought it was the correct action to take as a minister. In discussions about the possibility of giving a further donation to the Labour Party I have always made it clear that I would want to make it public again. Here also, no doubt because of the speed with which the

story was written, the facts have been distorted.

It is the actions of *The Economist* that you should be questioning here, not mine.

LORD SAINSBURYOF TURVILLE
London

Editor's note: Our article did not say (or suggest) that Labour had made the announcement because of us. It said, truthfully, that when we asked the party if the story was true, and if an announcement was planned, the party denied it, flatly. The article did not question Lord Sainsbury's actions, nor did it intend to imply that he wished his donation to be kept secret.

Watertight

SIR—The sceptics are wrong to argue that the restructuring proposed for Welsh Water would lead to a loss of responsibility and control ("Pipe dreams", January 6th). Glas Cymru's plans involve the outsourcing of day-to-day operations through a small number of "source to tap" contracts to leading specialists, giving Welsh Water and its customers the benefit of "best in class" service delivery as well as cost efficiency.

Unlike the rail sector, there will only ever be one firm providing a full range of operating services in any region, with a single line of responsibility through to Welsh Water. Far from being a "virtual utility", Welsh Water will have all the necessary staff and resources to monitor and control the performance of contractors and to step in should this ever prove necessary. This is not a step into the unknown; indeed, it is exactly the way the water industry is managed in many other countries. The board of Welsh Water has full and final responsibility for providing safe and reliable water and sewerage services, and this will not change nor be compromised in any way. The protections provided by the water industry's regulatory framework will continue as now.

Glas Cymru's proposals will cut Welsh Water's cost of capital, its single biggest cost (accounting for a third of customers' bills). This will let Welsh Water finance its huge capital-investment programme in Wales and cut bills. It is unsurprising then that our plans have had overwhelming support from customers and others in Wales.

LORD BURNS
Chairman, Glas Cymru
Cardiff

SIR—Regarding possible structural changes in the water industry I explained to you that the current proposals for Glas Cymru were unlikely to be relevant to Severn Trent. If, however, I gave the impression that outsourcing was "dangerous", I should have spoken more carefully. It is used extensively by the water industry and Severn Trent in particular—the vast majority of our £400m annual investment programme is outsourced.

BRIAN DUCKWORTH
Managing Director, Severn Trent Water
Birmingham

Grave news

SIR—The verse that puzzled your epitaphologist ("The inevitable hour", December 23rd):

> We dance round in a ring and suppose
> But the secret sits in the middle and knows

is one of Robert Frost's stray, whimsical couplets.

CHRISTINA GIBBONS
Brattleboro, Vermont

SIR—The epitaph, "a Woodman of the World", that baffled you so, simply means that the man beneath it

belonged, in livelier days, to the Woodmen of the World, a fraternal organisation dedicated to patriotism and good works. I don't know if the Woodmen ever chopped trees, but these days they mostly sell life insurance.

TERRI RANEY
Rome

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One nation, fairly divisible, under God

Jan 18th 2001 | WASHINGTON, DC
From The Economist print edition

Americans are divided about whether their country is itself divided. Some see a yawning culture gap between conservatives and liberals. Others see a soggy moderate centre. Both are right

IN DECEMBER 1999, as George Bush entered the Republican primaries, Gertrude Himmelfarb, a distinguished social historian, published a book entitled “One Nation, Two Cultures”. In it, she argued that America was becoming two countries. One, rooted in the 1960s, is hedonistic, individualistic and secular. The other, grounded in the 1950s, is puritanical, religious and family-centred. Such distinctions go back a long way. In 18th-century Britain, Adam Smith called them the “loose” and the “austere”. Michael Barone, a commentator for *US News & World Report*, calls their current embodiment “the Beautiful and the Dutiful”.

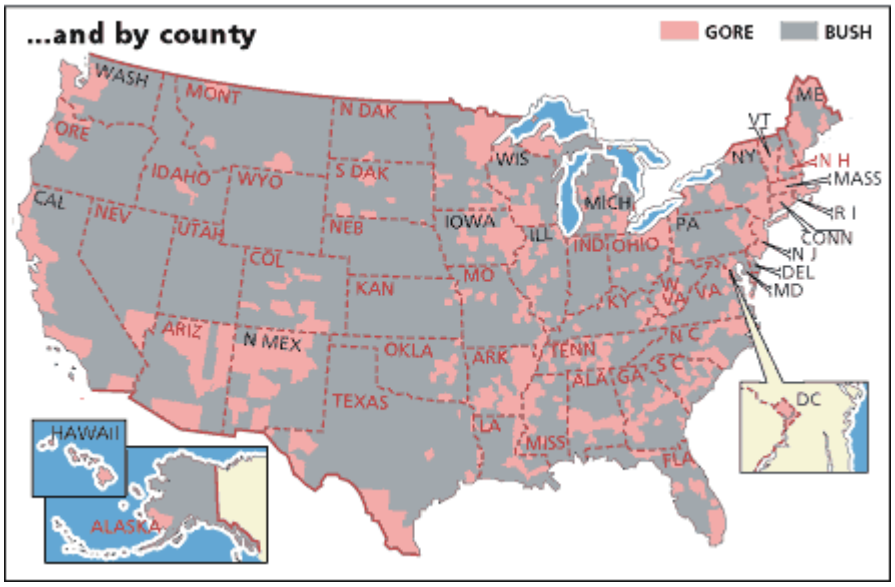
A year before Miss Himmelfarb’s book, as George Bush was wondering whether to run at all, Alan Wolfe published an alternative view. In “One Nation, After All”, he argued that, far from collapsing into warring cultures, America is dominated by a fairly homogenous middle class whose cardinal virtue is tolerance. This class, argued Mr Wolfe, lives in a land of “quiet faith”, “ordinary duties” and “morality writ small”. If there is a culture war, it is within individuals, as they try to strike a balance between the cultures of the 1950s and 1960s. They are neither beautiful nor dutiful. Mutable, perhaps.

As Mr Bush prepares to take the oath as America’s 43rd president, the question of who is right, Miss Himmelfarb or Mr Wolfe, seems more than usually acute. This is only partly because Mr Bush’s prospects for success hinge on the answer. More vitally, there is a great deal of exit-poll evidence that America is indeed becoming, in some ways, “one system, two nations”. *Ex uno, plures.*

The argument begins with the narrowness of the result. The votes for the presidency, the Senate and the House were more or less tied. At state level, Democrats now control both houses of the local legislature in 17 states; Republicans control both houses in 18 states. Yet this was not a freak election. The past three congressional-election votes have all been squeaky-close, with both parties getting around 48-49% in each of them. Bill Clinton was also re-elected president with 49% of the vote. As Mr Barone says, this is the same number, over and over again.

In the 1990s, both parties had hoped to create decisive governing majorities: the Democrats on the back of Mr Clinton’s move towards the centre, the Republicans by trying to become the party of the “new economy”. Both failed. Instead, for the first time since the 1880s, America has gone without a dominant party for a whole decade.

Political stasis, of course, is not the same as political division. It could be produced, for example, by an even split in each main constituent group in the country. But that seems unlikely. American political parties have become ideologically more coherent since the 1960s, when conservative Democrats in the South defected to the Republicans, mirroring the decline of liberal “Rockefeller Republicans” in the north-east. And it does not seem to have happened in the 2000 election.



Look at the first electoral map above. Mr Bush's states form a broad band running down the Rockies and across the South. This is America's interior heartland, home of the "dutiful" people. Mr Gore, on the other hand, won the godless coasts and the industrial mid-west. Democrats have won the biggest cities for generations. This time, they won the smaller metropolitan regions too. Mr Gore won metro areas with more than 500,000 people by 71% to 26% (see chart "Urban v rural", below), easily the largest margin since this figure has been tracked. He also won the congested suburbs of the north-east and southern California. This is where the "beautiful" Americans live.

David Brooks of the *Weekly Standard* calls this the "Ice Age" division. Democrats won those areas which, when the glaciers receded, were either carved by rivers into ports which became big cities (the coasts), or were scraped clean to leave them too poor to support anything but car factories (the mid-west). Republicans won the areas that received all the topsoil the glaciers deposited, turning them into rich farms or ranches.

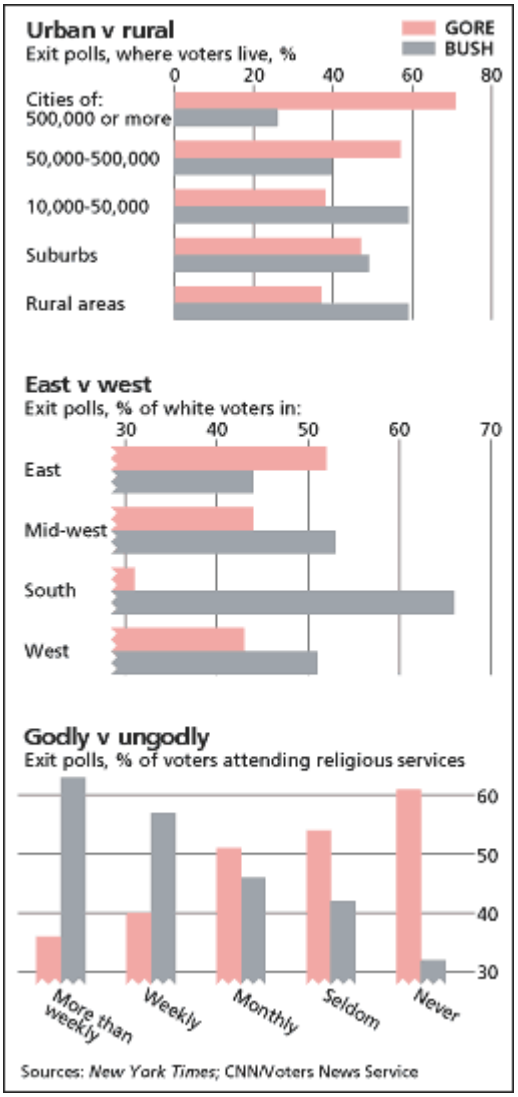
More important than geology or geography is that different types of people voted for the two sides. Blacks voted overwhelmingly for Mr Gore, white men for Mr Bush (see chart "East v West", above). Unfashionable though it is to say so, the 2000 election revealed the racial divide in American politics more sharply than in the recent past.

This was largely a southern phenomenon. White southerners voted for Mr Bush by a 35-point margin. Ronald Reagan received an even larger margin in 1984; but he had margins almost as big

among whites elsewhere. Mr Bush did not. Outside the South, he beat Mr Gore by only 3 points or so. In other words, Mr Bush overwhelmingly needed white southern men for victory. That chimes with other evidence. Nearly half of all voters said they had a gun at home, the highest such figure ever recorded; 61% of gun-owners voted for Mr Bush.

But of all the determinants of voting behaviour, religion was the most precise. The more often voters went to church, the more likely they were to vote Republican. Of those who never go, 61% chose Mr Gore, 32% Mr Bush. For those who go more than once a week, the votes were reversed (see chart "Godly v ungodly", above). It is almost a perfect fit. Mr Barone points out that Mr Gore won the two counties with the lowest church-going rates, Manhattan and Los Angeles County, by margins comparable to the biggest Democratic landslide in recent history (Lyndon Johnson's defeat of Barry Goldwater in 1964). Yet Mr Bush won Montana, Wyoming and Idaho by rates approaching the biggest Republican landslide in recent history, Richard Nixon's defeat of George McGovern in 1972.

Put these patterns together. As Bill McInturff, a Republican pollster, told the *Washington Post*: "We have two massive colliding forces. One is rural, Christian, religiously conservative. [The other] is socially tolerant, pro-choice, secular, living in New England and the Pacific coast." Miss Himmelfarb could hardly have put it better herself.



Multiple melting pots

A single election is a slender base on which to argue how a country has changed. Nevertheless, there are other reasons for thinking that the patterns of the 2000 election may be valid for the longer term.

They come from the new census. For decades, two broad trends have been reinforcing one another to redraw the demographic map of America. These are, first, the internal migration of Americans from the north and mid-west to the South and south-west ("the Sunbelt" at the broadest definition of that over-used term); and, second, immigration from outside, mostly from Latin America, to those same states. The two have worked together to produce a booming Sunbelt and a brisk new stirring of the ethnic melting pot.

Both trends are continuing. But research by Bill Frey of the University of Michigan suggests that they are now going in different directions. This finding gives more credence to the argument that America is becoming more deeply divided.

Between 1990 and 2000, the combined voting-age population of Hispanics and Asians rose by almost 10m to 30m: 10% of the population, almost twice what it was in 1980. That is an acceleration of an old trend. What is unusual now is the concentration of the growth. More than 60% of the increase occurred in just four states: California, Texas, Florida and New York. Mr Frey calls these the new melting pots (he adds Hawaii, New Jersey and New Mexico, which have similarly high levels of immigration).

Meanwhile, other states are getting whiter. The white voting-age population rose by more than 22% in the western states of Nevada, Utah, Idaho, Arizona and Colorado during the 1990s. Most of the white migrants came out of California. In the South, Georgia, North and South Carolina and Tennessee also saw their white voting-age populations increase by more than twice the national average. These too are Sunbelt states. They are still growing economically. The difference is that the new Sunbelt is attracting whites (and blacks) from elsewhere in America. The melting pot is attracting foreigners. The Sunbelt is splitting in half.

This has profound political implications. The states gaining white populations form the spine of Mr Bush's band of victory, running down the Rockies and through the South. With three exceptions (Oregon, Washington and tiny Delaware), Mr Bush won every fast-growing state outside the melting pots. With two exceptions, Mr Gore won every melting-pot state. His exceptions—Florida and Texas—are revealing. Both had governors called Bush. And they are the two states with the largest absolute number of white migrants (as well as large numbers of Latinos). They thus complicate but do not contradict the basic link: there is a close overlap between the short-term trends of the 2000 election and the longer-term figures from the 2000 census.

Cut another way

So is America one nation, two cultures? Before saying yes, consider a different interpretation of some of the same figures, starting in the same place: with America's current political make-up.

This is the first time since the 1920s that one party has held the presidency, the House of Representatives, the Senate, a functional majority on the Supreme Court, and a majority of both state houses and governors. If you look merely at voting margins, there is a dead heat. If you consider the direction of politics over time, there has clearly been a small shift to the right. Ben Wattenburg of the American Enterprise Institute (AEI) doubts that this points to any fundamental realignment but argues that, if Republicans establish a renewed political dominance in 20 years' time, historians will point to the 2000 election as the first clear evidence of it.

Now consider the electoral map broken down by county (second map). This shows a far more complex pattern. Instead of one big Republican band separating two Democratic blocks, the new map is like a scatter diagram. Most of the map is grey because Mr Bush took the rural acres. But he won clusters in almost every Democratic state, and took New Hampshire, the state with the highest proportion of "new economy" workers. Conversely, Mr Gore won clusters of votes in every Republican state bar Wyoming, Utah and Nebraska. The Gore enclaves are usually towns or universities, or strung out along the Mississippi. But Democrats won even in Republican heartlands.

It is true that the county-by-county map confirms, rather than denies, the existence of an urban/rural split in America. But too much can be made of this division. Over half of Americans live in neither of these areas, but in suburbs. And suburbia itself is more varied than it looks. Inner suburbs look like the cities they adjoin (and trend Democratic). Outer "exurbs" are usually Republican. In between, the traditional suburbs split more or less down the middle, but in ways that fit no clear pattern.

More important, the census gives an entirely different account of what is happening in this suburban middle ground. At least as striking as the rise in immigration or the change in internal migration is a demographic development that in any other country would be called the collapse of the lower-middle class.

Bill Galston of the University of Maryland argues that, since 1970, the poor and working poor (those with household incomes below $25,000 at constant 1999 prices) have slipped only a little as a share of the total population, dropping from just over a third to just under a third. What he describes as the poorer middle class has declined as a share of the total by over ten points (38% to 28%). The richer middle class and the rich, on the other hand, (those with household incomes over $50,000, of which the very rich are a small part) have risen by almost 15 points from just over a quarter to over two-fifths. In other words, the largest single group of Americans now is the fast-growing rich middle class.

These are the people living in the suburbs: the mythical "soccer moms", socially liberal, economically conservative folk concerned about their children's schooling, their commute to work, their new Palm Pilot. Their attitudes contradict the notion that America is an apartheid democracy. Largely because of the economy's growth in the past decade, traditional economic-interest-group arguments play little part in their politics (though that may well change if recession comes). Instead, they are mostly concerned about "values"; and Mr Wolfe found endless evidence that the value they most admire is tolerance.

For the past 30 years, around 40% of Americans have described themselves as moderates. That share reached 50% in the 2000 election. That, suggests Karlyn Bowman of the AEI, may be a spike; but it still means a plurality of the population sees itself this way, and has done for years.

Suburban moderation cuts across the religious and ethnic lines so evident in the census and election returns. Public Agenda, a polling organisation, has found that large majorities of Americans see religion

as primarily a guide to morals and good behaviour (rather than, say, a matter of faith or ritual), and do not want to foist their religious opinions on workmates or friends.

Similarly, the racial divide may be changing in the suburbs. One of Mr Frey's most intriguing findings is that, in the 1990s, blacks reversed their long trend of leaving the South for the cities of the north and began returning—this time to the sprawling suburbs around Atlanta and other southern cities. In the 1990s, the South had a net gain of 326,000 adult blacks from the rest of the country. Most are suburbanites or retirees. In Clayton County, Georgia, for the first time, black incomers have a higher educational level than existing residents.

So far, this has not altered black voting patterns. But other ethnic groups are following the trail, first blazed by Italians, Poles and others, away from identity politics and towards assimilation. One-third of Latinos voted Republican. In Texas, the figure was 43%; in Florida, 50%. And there you can see the political affiliations reversing. Cubans in the city of Miami have traditionally voted Republican. The younger generations who have left for the suburbs of Broward County, to the north, are more Democratic. Cutting across the divide between the two cultures is a different pattern: the growth of a large, tolerant, middle-class suburbia.

That is sometimes used to suggest that America is split only shallowly, rather than deeply. But that does not do justice to the evidence of cultural division. It would be better to think of America as a bell shape. At the edges are the two sharp tails of the cultural and social divide. In the middle is a bulge of moderate opinion. The test of Mr Bush's presidency will be whether he marginalises the centre and encourages the tails, or whether he ignores the tails and appeals to the centre, as his campaign promised to do.

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The trouble with John

Jan 18th 2001 | WASHINGTON, DC
From The Economist print edition

The clash over John Ashcroft's nomination as attorney-general is a fight about how conservative it is possible for George Bush to be

JOHN ASHCROFT has a seven-foot home-made Statue of Liberty in his barn that he constructed out of barbed wire. In the Senate, he co-sponsored a "Human Life" amendment, which defined life as starting at the moment of conception. It favoured banning abortion even in cases of rape or incest (though not if the life of the mother were threatened) and outlawing some forms of contraception.

Reuters

All the president's man

As governor of Missouri, he sought to allow the use of concealed weapons and in the Senate voted against safety locks and a ban on assault weapons. In 1998, he gave an interview to *Southern Partisan* praising it for defending "Southern patriots". He accepted an honorary degree at the notorious Bob Jones University, voted against a proposed ambassador on the grounds that he was homosexual and once opposed a voluntary plan to desegregate the racially divided schools district of St Louis. He also wants to cut taxes, impose term limits and encourage churches to provide more welfare services.

In short, Mr Ashcroft is an American religious conservative. Is such a man fit to be attorney-general? In the normal course of events, there is little doubt that the answer would be yes. This is partly because millions of perfectly decent Americans espouse Mr Ashcroft's views (so he is hardly beyond the pale). And it is partly because of the way in which cabinet nominees are approved.

The constitution says the president appoints his cabinet "with the advice and consent of the Senate". That role has always been narrowly construed. In the Federalist Papers, Alexander Hamilton argued that the "advice and consent" rule was intended to block only people who were incompetent, corrupt, or criminals. Senators have refused to use confirmation hearings merely to weed out those they disagree with because that would blur the boundaries between the administration and the legislature. Their Republican leader, Trent Lott, made this point when he argued, on Mr Ashcroft's nomination, that "George W. Bush was elected president. He is a conservative, and he is entitled to have a cabinet of his choosing."

By this standard, Mr Ashcroft ought to be confirmed. That is so even though he himself once denied the "deference standard". In November 1997, he voted against a Democratic nominee to the civil-rights division of the Justice Department on the grounds that he had been sent to Washington "to evaluate whether or not an individual would be the kind of an administrator in an agency that people are entitled to have." (In other words, I can second-guess the president.)

His confirmation should also survive the accusation that he is a racist. In 1999, stuck in a tight Senate race, he engaged in low racial politics by falsely branding a black judge in his state "pro-criminal". Still, as governor, Mr Ashcroft appointed eight black judges; by most objective standards, he is not the bigot some Democrats have called him.

On balance, Mr Ashcroft is a serious and hardworking politician. One of the reasons for choosing him is that Mr Bush thinks the Justice Department needs a thorough overhaul after years of upheaval under Janet Reno, and Mr Ashcroft was attorney-general in Missouri for eight years.

In that post, he also passed the test posed by Charles Schumer, the (senior) senator from New York who asked him at the hearings whether as attorney-general he could enforce laws that he disagreed with as senator. As one of his supporters, Senator Jon Kyl of Arizona, put it: "as attorney-general...he enforced Missouri's Brady Bill, its gun registration bill. And with respect to abortion, he rendered opinions as attorney-general that were contrary to his personal beliefs, but which upheld Missouri law."

For all these reasons, Mr Ashcroft should expect to be confirmed. Indeed, it seems likely that all 50 Republican senators will vote for him and so will at least one Democrat, Zell Miller of Georgia. But it is not a certainty; and the nature of his confirmation hearing has been unusual.

The reason for this abnormality has less to do with Mr Ashcroft than the election result—and Mr Bush's reaction to it. Begin with the closeness of the election result. "When senators suspend their own ideological views in the confirmation process, they do so for the sake of letting the president do what the majority of the people elected him to do," Michael Sandel, a professor at Harvard, has argued in the *New York Times*. "But in this election, more people voted for Al Gore than for Mr Bush."

This sense that the election outcome changes the rules of politics has emboldened Mr Ashcroft's critics. Previous hearings have also been bitter, but those concerning cabinet nominees have concentrated on personal matters. Ideological conflict of the sort Mr Ashcroft endured has hitherto been confined to judicial appointees who outlast any one administration. (Indeed, the grilling of Mr Ashcroft is in part a warning from Democrats of even more vicious battles to come if Mr Bush nominates controversial conservative judges to the Supreme Court.)

This ideological conflict has been encouraged by Mr Bush's reaction to his election. He sometimes reverts to the "uniter not a divider" mantra of his campaign. But for the most part, he seems to be trying to stamp his authority and conservatism on a divided Congress. Pressing for a huge tax cut and insisting on his plans for a national missile defence fit this picture. So does making sure Mr Ashcroft becomes attorney-general.

All that said, there is a final question worth considering: should Mr Ashcroft even have been nominated?

Mr Ashcroft is no racist. But his attacks on Judge Ronnie White showed him to be something almost as bad: a liar and a character assassin. Mr Ashcroft said Judge White had "a serious bias against the death penalty." The judge had upheld almost 70% of the death penalty cases he had reviewed. Mr Ashcroft said he would "push law in a pro-criminal direction", a grotesque charge for which there is no evidence at all. And he said Judge White had a "tremendous bent toward criminal activity". As Stuart Taylor pointed out in the *National Journal*, this was an outrageous remark: had Mr Ashcroft made it outside the privileged confines of the Senate chamber, Judge White would have had a clear case of slander against him.

The judge was due to testify before the Senate judiciary committee as *The Economist* went to press. Unless that testimony produces something remarkable, the Senate will confirm Mr Ashcroft. But he should not have been nominated in the first place, no matter what point Mr Bush was trying to prove.

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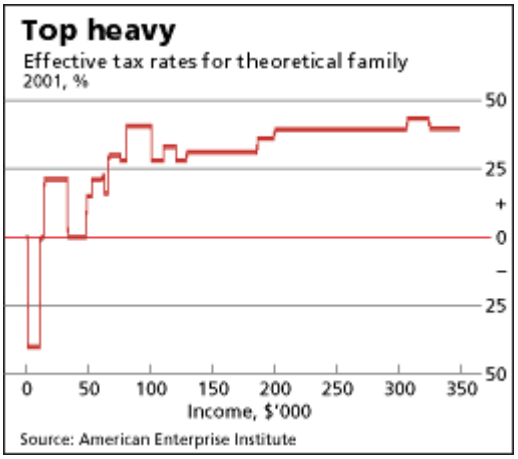
Taxes and the economy

Read his lips

Jan 18th 2001 | NEW YORK
From The Economist print edition

IF YOU thought George Bush's tax promises would be as empty as his father's, expect to be disappointed. During the election campaign, most economists derided his proposed package of tax cuts as fiscally reckless, and hoped it would soon be forgotten in office. Now, as America's economy has teetered from boom to possible recession, even congressional Democrats seem likely to vote for some sort of reduction.

Some conspiracy theorists are claiming that Mr Bush would like a recession now, so that it can be long gone by the next election (hence his alarmist comments about the economy going into a "tail-spin"). A more cogent debate surrounds the idea that a recession makes tax cuts less reckless. Even if that is true, most economists argue that fine-tuning the economy is best done, if at all, by changing interest rates. The planned tax cut will come into effect only in 2002 (and be phased in over ten years). The real test of Mr Bush's plan will be its long-term effect on America's public finances.



The president looks likely to present his plan to Congress as a single all-encompassing bill, despite advice from Dennis Hastert, the House speaker, that progress might be easier with a series of smaller tax cuts. The figure will be enormous. Mr Bush has talked about a tax cut of $1.3 trillion, but that ignores the government's higher interest payments caused by paying off fewer of its debts. The true cost is at least $1.6 trillion, maybe even $2 trillion.

Moreover, fears are growing that the fiscal surplus available for Mr Bush to give away (officially some $2.5 trillion over the next ten years) may be smaller. The economic slowdown and the fall in share prices on the Nasdaq, with its consequences for capital-gains-tax revenues, have to be taken into account. And there is a debate about the taxpayer's potential bills for Social Security and Medicare. The White House this week dropped its forecast to a $1.6 trillion surplus.

These things may come back to haunt Mr Bush and his successors; but, in practical political terms, they matter little. If even the Democrats are now behind an economy-fortifying tax cut, then there will be one. It will be the third big give-away since the second world war, after those of the Kennedy-Johnson and Reagan administrations. The only question is, what form should it take?

The plan Mr Bush campaigned on had several parts. It would reduce the number of marginal rates of income tax from today's five (39.6%, 36%, 31%, 28% and 15%) to four (33%, 25%, 15% and 10%). Child credit would be doubled to $1,000 a child, and the upper limit for tax-relieved contributions to educational savings accounts would soar from $500 to $5,000. Estate taxes would be phased out, and married couples in which both work would get a new 10% deduction.

The abolition of the "marriage penalty" should sail through. Getting rid of inheritance tax will draw more Democratic fire (since it especially helps the rich), but the Democrats' main target will be the income-tax cuts. The Democrats say this tax cut will also go largely to the rich. This is true, but only because the poorer half of the taxpaying population stumps up less than 3% of the total income-tax take. Although richer taxpayers would benefit most from Mr Bush's plan, it would nonetheless increase the share of total income tax they pay.

Lobbyists, as well as politicians from both parties, will be seeking exceptions and enhancements. The Democrats may try to add big tax-breaks for health insurance. Mark Bloomfield of the American Council

for Capital Formation expects the Bush tax cut to combine income-tax rate cuts with measures to boost capital creation.

Trent Lott, the Republican leader in the Senate, wants to reduce the rate of capital-gains tax from 20% to 15%, claiming that a cut from 28% to 20% in 1997 increased economic growth. But a big gap between the top rate of income tax and capital-gains tax opens a door to tax avoidance (as people convert income to capital gains). Mr Bush may opt instead for other attempts to help capital formation, such as making permanent the current tax credit for research and development. Saving may be encouraged with bigger tax breaks for retirement schemes.

Alas, nobody expects Mr Bush to propose what the system probably needs most: radical simplification. After endless piecemeal offering of tax breaks to favoured groups, America's tax code "is now as messy and incoherent as it has ever been," says Kevin Hassett of the American Enterprise Institute. He helped John McCain craft a simpler, less costly plan. But then Mr McCain did not make it past the primaries. America voted for a tax cut, not tax reform.

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Lexington

Still the Democrats' alpha male

Jan 18th 2001
From The Economist print edition

INAUGURATION DAY is a time of exits as well as entrances. The incoming president processes from the Capitol to his new home in the White House. The outgoing president slips out of a side door, and is whisked off to rediscover his roots and write his memoirs. Dwight Eisenhower became a gentleman farmer. Jimmy Carter did good works around the world. Gerald Ford perfected his golf. The only 20th-century president who chose to remain in Washington was Woodrow Wilson—and he was already seriously ill when he left the White House and spent the remaining three years of his life in semi-seclusion.

It is a sign of Bill Clinton's lack of roots that he could barely decide whether to leave for Arkansas or for New York. (He eventually decided on the state that represents his family's political future rather than its past.) But, wherever he claims to go, he will probably really be in Washington, DC. In part this is a personal choice: the man who came to town as a proud outsider and suffered the unprecedented indignity of impeachment has installed himself at the heart of the permanent Washington establishment. But it is also a political choice. He is the de facto leader of the Democratic Party, and that is a Washington-based job.

It would never have been easy for the party to get over the only Democrat to be re-elected for a second term since Franklin Roosevelt. Mr Clinton is an energetic 54—the youngest ex-president since Teddy Roosevelt—and he leaves office with the highest approval ratings of any two-term president in modern history. He is by far the party's most magnetic personality and its best fund-raiser. His wife is already a star of the Senate.

And Mr Clinton will be close at hand, and extremely visible. John McCain may content himself with a modest flat in the flight path of Reagan airport. (He regards his real home as his ranch in Arizona.) The Clintons have bought a large house just off Embassy Row for $2.8m. No sooner had Al Gore (finally) conceded the election than Mr Clinton ruthlessly cemented his hold on the party. In particular, he engineered the nomination of his buddy, Terry McAuliffe, to lead the Democratic National Committee, bulldozing aside Al Gore's candidate, Joe Andrew, in the process.

Mr Clinton's bid to remain the Democrats' alpha male has been made all the easier by the fact that there is no obvious alternative. Or rather by the fact that there are so many possible alternatives that the party cannot decide whom to rally behind. Mr Gore got more votes than Mr Clinton ever did, and he has a reasonable claim to lead the Democratic bid to avenge a "stolen election". But many Democrats regard him as an inept candidate who blew what should have been an easy victory. They would much prefer to look to their congressional leaders (Tom Daschle and Dick Gephardt) or to one of the growing band of candidates for the presidential nomination in 2004, including Joe Lieberman, John Edwards, Bob Kerrey, John Kerry, Gray Davis and, of course, Mrs Clinton. The Supreme Court did much more than just hand the White House to George Bush when it pulled the plug on the Florida recount; it deprived the Democratic Party of a line of succession that would have allowed it to avoid the Clinton problem.

And there can be no doubt that it is a problem. There is nothing worse for a political party than to have an old leader who refuses to disappear: ask the French about De Gaulle, or the British about Margaret Thatcher. Parties need to renew themselves with new people and fresh ideas. The new generation of leaders need to be able to define their own identities without risking unfavourable comparison with their elders. The more dominant the outgoing leader, the more important it is that he or she gets out of the

way.

All this applies in spades to the comeback kid. Mr Clinton is likely to remain a deeply divisive figure even if he goes in for Jimmy Carter-style good works. It is hard to see how the Democratic Party will be able to reconquer such socially conservative states as Tennessee and West Virginia so long as it remains Mr Clinton's party. And disapproval of Mr Clinton is not limited to the Bible belt. Huge numbers of people have always disapproved of Mr Clinton personally, even if they approved of his performance as president.

Mr Clinton also serves as a constant reminder of the most sordid aspect of the politics of the 1990s: not the sex, but the money. Handing the leadership of the Democratic National Committee to Mr McAuliffe is particularly worrying. Mr McAuliffe has raised more than $300m for various Democrat and Clintonian causes in the past few years. He is credited with inventing the "White House coffees" and turning the Lincoln bedroom into a motel room for Democratic donors. He has also been personally generous to the Clintons, raising money for Mr Clinton's legal defence fund and presidential library, and tiding the couple over with a loan guarantee of $1.35m when they were buying their house in New York.

Mr Clinton is a danger not just because of what he did wrong but also because of what he did right: bringing the Democrats back to the centre and urging the left to accept sound economics. Some New Democrats argue that Mr Clinton's broad appeal within their party makes him an ideal champion of their cause. But it is equally possible that up-and-coming Democrats, disliking the way the former president continues to hog the limelight, will be tempted to do what Mr Gore did, and distance themselves not just from Mr Clinton personally but also from his centrist politics.

Mr Clinton has never been good at leaving the limelight. The young Arkansas governor first came to national attention with a speech at the 1988 Democratic National Convention which went on for so long that the audience broke into spontaneous applause when he finally uttered the electrifying words, "in conclusion". Perhaps Mr Clinton should look at the way Mrs Thatcher's reputation plummeted (even among the faithful) when she tried to become John Major's back-seat driver, or at the soaring of Mr Carter's reputation when he made a new career outside politics. Mr Clinton cannot be expected to disappear, given the nature of his wife's new career. But a lower profile, and a looser grip on Democratic politics, could be good not only for the health of his party but also for his own still imperfect reputation.

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That flag again

Atlanta breeze

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AT FIRST glance, the banner wrapped around the podium at Atlanta's main Martin Luther King Day rally looks like the flag of the state of Georgia. Assorted speakers rail against racial bias in the police and the judiciary and cheer affirmative action above the state's familiar blue stripe and seal. But, on close examination, the blue-on-scarlet Confederate cross that normally adorns the flag has been replaced by three innocuous red and white stripes.

The demonstrators—almost all of them black—reject the official flag as an emblem of slavery and segregation and want it replaced by the doctored version. But the state's lawmakers, who are mostly white, are unlikely to oblige. The impending row could cost Georgia its reputation as a model of race relations for the "new South", and perhaps loosen the Democratic lock on state politics that has endured since the Civil War.

This was not supposed to happen. Georgia prides itself on its many black mayors, legislators and congressmen. Atlanta, its capital, bills itself as a city "too busy to hate". On Martin Luther King Day last year, protesters concentrated their ire on South Carolina, which then flew the Confederate flag on top of its state house and refused to observe the nationwide holiday in honour of King.

But last July, under pressure from a black economic boycott, South Carolina decided to move the flag and to institute a holiday. And even Mississippi, widely considered the darkest, deepest recess of the South, has just passed a law to pave the way for a referendum on changing its flag. Now Georgia is firmly in the protesters' sights, and another boycott is being threatened by black leaders.

Georgian facade

The flag's defenders insist that it is simply a symbol of southern heritage, with no racist overtones. That is disingenuous: Georgia adopted the current flag only in 1956, to protest against the growing pressure for desegregation. On the other hand, the protesters' putative replacement (the one with red and white stripes) is closely modelled on the official flag of the Confederacy, which, though less well known than the Confederate military emblem on the current flag, is arguably just as redolent of the South's past.

Needless to say, these arcane historical distinctions are merely a code for contemporary grievances. Those most opposed to change (mainly white men) detect another liberal assault on their values akin to affirmative action, gun control or homosexuals in the army. The fiercest advocates of change see the current flag as a symbol not just of past wrongs but of continued racism throughout state politics and government.

This grandstanding threatens Georgia's political balance. Since the civil war, conservative Democrats elected by the rural white counties in the south and west of the state have dominated the legislature. For the past 26 years Tom Murphy, a beefy, cigar-chewing country boy, has reigned as speaker of Georgia's House of Representatives. Even as disgruntled conservatives have switched parties and Republican immigrants have poured into Atlanta's suburbs, such "Dixiecrats" have managed to stay in power in alliance with more liberal black Democrats from the inner cities.

The flag could divide Georgia's Democrats along a racial fault-line. Rural whites will turn on any politician who turns on the flag; urban blacks will round on those who do not. In private, most legislators admit that the flag will have to change sooner or later, and that the longer they wait, the greater the risk of the controversy South Carolina endured. But they leave it to businessmen and church leaders to say so in public. Zell Miller, a former Democratic governor, nearly lost his bid for re-election in 1994 after proposing a new flag. Roy Barnes, the current Democratic incumbent, is keeping his head down—to the

jeers of Republican leaders, who, with few black supporters to lose, want a vote as soon as possible.

The subject is all the more fraught because Georgia's legislature will soon have to draw new districts both for its own members and for Georgia's congressmen. Any internal divisions will wreck the Democrats' chances of maintaining control of the legislature and increasing their representation in Congress.

In the past, black Democrats have cooperated with white Republicans to ensure more black-majority seats (and hence better odds for the Republicans elsewhere). This time round, they will find it harder to justify breaking ranks, because of the partisan animosity generated by the presidential election—unless, of course, white Democrats meanwhile manage to generate even more animosity over that wretched flag.

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Fore!

Jan 18th 2001
From The Economist print edition

TO MOST people, golf is a game of skill. To others it is a war of nerves. Few view it as, first and foremost, a contest of stamina. But this is what the nine justices of the Supreme Court were asked to believe on January 17th, when they heard oral arguments in a case which, though it involves a sport that some consider less exciting than watching paint dry, has riven the nation's golfers. The question: is a crippled professional golfer cheating if he uses a golf cart?

AP

Martin's extra iron

After their controversial decision in *Bush v Gore*, the justices can scarcely have rushed to take on a case that has split country clubs across the nation. And court-watchers point out that in this case Sandra Day O'Connor, the swing justice in so many cases, may have a personal interest. An avid golfer, she recently scored a hole-in-one. Was she using a golf cart? The question remains unanswered.

The case before the court involves Casey Martin, a 28-year-old professional golfer who suffers from Klippel-Trenaunay-Weber syndrome, a debilitating circulatory disorder which has withered his right leg and made it painful for him to walk far. Despite this, Mr Martin, a former team-mate of Tiger Woods in Stanford University's golfing squad, has pursued a professional career. When the Professional Golfers' Association (PGA) refused to allow him to use a golf cart in one of its tournaments, Mr Martin successfully sued under the Americans with Disabilities Act (ADA).

Mr Martin's lawsuit has garnered enormous attention as it has moved through the courts over the past three years. He has won at every stage, maintaining that his inability to walk the entire length of a golf course should not bar him from professional competition. "The PGA Tour has missed a golden opportunity to embrace a highly talented golfer," William Wiswall, Mr Martin's lawyer, has argued. He also claims his client neatly illustrates the PGA's motto, "Anything's possible." Nike, a sporting-goods manufacturer, has announced a new endorsement contract with Mr Martin and declared "We believe in his right to pursue his dream."

Hold on, replies the PGA. Walking is an essential part of the professional game, and allowing Mr Martin to use a golf cart gives him an unfair advantage. "Professional golf is an athletic competition and the ability to walk five miles each day for four consecutive rounds, week after week, often under adverse conditions and over challenging terrain, is part of the challenge of playing professional golf at the highest level," explained Tim Finchem, the PGA Tour commissioner.

In the original trial, the PGA trotted out Arnold Palmer and Jack Nicklaus to testify that the "fatigue factor" created by walking was an essential part of the game and that Mr Martin ought to play by the same rules as everyone else. Many younger professionals, however, have backed Mr Martin, and the original trial judge seemed impressed by the claim that, even with a cart, Mr Martin suffered more fatigue than most golfers because of his condition (he still has to walk some 25% of the course).

Apart from the glaring fact that thousands of American golfers use carts every day, and yet believe they are playing the same game as Tiger Woods, the PGA's case has also been somewhat undermined by the fact that carts are allowed in the early qualifying rounds of many professional tournaments as well as on the senior tour, which is for professionals over 50. Moreover, the necessity of walking is not mentioned anywhere in the official rules of golf.

The key questions before the court are less golf-related and more specifically legal: does the ADA regulate standards in athletic competitions held at places or events that are open to the public, and, if it does, are professional sporting bodies required to grant selective waivers of their rules to accommodate

disabled competitors? The court has struggled in a series of cases in recent years to delineate the reach of the ADA, which has successfully opened doors for millions of disabled people but is so broadly drafted that it has left many firms unsure of what is required.

The experts are betting that the justices will rule against Mr Martin. In the oral hearing, they seemed to have trouble even taking the case seriously. If they do decide to leave Mr Martin with his cart, their ruling is likely to be on grounds narrow enough to avoid a herd of asthmatic marathon runners or lame basketballers hobbling in his wake.

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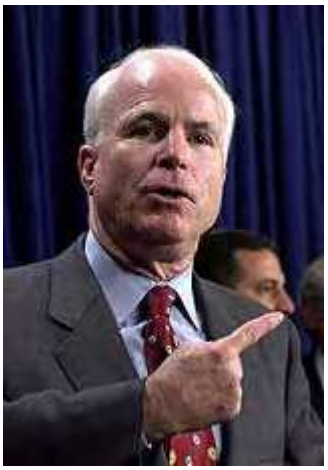
Campaign-finance reform

Dam the river

Jan 18th 2001 | WASHINGTON, DC
From The Economist print edition

AS GEORGE BUSH rides into the White House, he has a burr under his saddle that is hard to shift. It comes not from Democrats in Congress, but from John McCain, his erstwhile opponent in the Republican primaries. Mr McCain plans to continue his crusade for campaign-finance reform when the Senate reconvenes next week.

AP



His chance has come

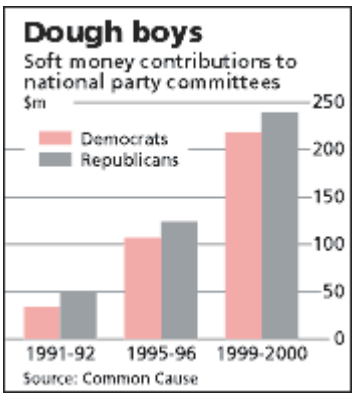
For years, campaign-finance reform has been an issue well-suited to Washington gridlock: supported (in parts) by Democrats, blocked by Republicans, little noticed elsewhere. Yet once Mr McCain turned his campaigning fire against an election system awash with money, the issue became more difficult for Republicans to sweep under the carpet.

Mr McCain says that he has enough votes to pass the McCain-Feingold bill (the honours are shared with Russ Feingold, a liberal Democrat from Wisconsin). Once that is done, Mr Bush will have to decide either to sign the bill, or veto it at his peril.

The bill proposes to eliminate “soft money”; ie, unlimited and unregulated funds that are channelled into the political parties for so-called “general” expenditure, but often end up boosting individual campaigns. Both companies and trade unions are rich sources of soft money, so both parties benefit; but Republicans have long had the edge. It is Republican politicians who have so far successfully blocked McCain-Feingold in the Senate. The argument against it remains that campaign contributions are the equivalent of free speech, and are thus protected by the constitution’s first amendment. Current law upholds this.

Yet several things have changed, not least Senate arithmetic. In 1999 the bill was backed by all 45 Democrats and a handful of Republicans, yet it failed to get the 60 votes necessary to break a Republican filibuster. In November, however, voters removed five Republican senators who opposed campaign-finance reform and replaced them with five who like it.

Second, Americans are getting more exercised about the sheer amount of money sloshing round the system. During the latest election cycle a record $3 billion was spent to elect federal candidates, up from $2.1 billion in 1995-96. According to John Zogby, a pollster, dislike of this profligacy is strongest among working-class voters (not all of whom by any means are Democrats), and could ultimately hurt the Republican Party’s chances in the 2002 elections.



Moreover, the Republicans can no longer count on soft money to give them an outright advantage over their opponents. According to Common Cause, of nearly $460m raised in soft money for last year’s elections, Republicans ended up with only 52% of the total. For the first time, more than half the money Democrats raised was the soft sort. This may frighten several Republican senators who face a tough re-election fight in two years’ time.

It may also undermine Democratic support for McCain-Feingold. If Democrats have suddenly got good at doing something dodgy, why should they stop themselves? Mr McCain agrees that this could be a problem, but insists that McCain-Feingold’s long history has given every senator a voting record on the issue, so any Democrat who changes his vote will be open to charges of hypocrisy.

All this makes things sticky for Mr Bush. During the Republican primaries, when he was raising money hand over fist, he opposed the idea of a ban on soft money. Mr Bush reckons that any campaign-finance proposal ought to include a provision allowing workers to opt out of automatic union contributions. Yet few believe that such a provision (so-called “pay-cheque protection”) would ever be accepted by congressional Democrats.

If Mr Bush were to veto a prominent bipartisan bill at the start of his administration, it might make his pledge to “change the tone” in Washington seem rather hollow. His team snorts that he should be concentrating on other things. Not surprisingly, Mr McCain denies that he is trying to steal Mr Bush’s thunder. The start of any administration, he argues, is taken up with cabinet-confirmation hearings; this creates a window for pushing campaign finance through.

Mr McCain knows that this may be his only chance. Any bill not considered early on will be pushed aside when the Senate takes up Mr Bush’s main proposals. After that, it will be time for another election and then any attempt to dam the river of money will run up against an even greater natural force: every politician’s wish to survive.

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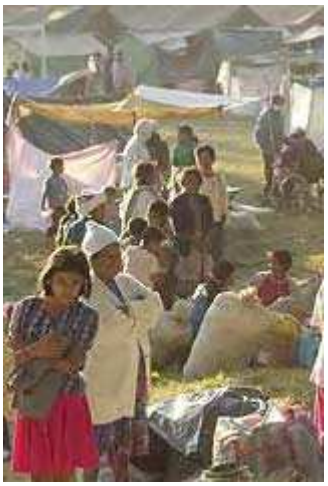
Lessons from El Salvador's tragedy

Jan 18th 2001 | SANTA TECLA
From The Economist print edition

What can small, poor countries do to protect themselves from natural disasters?

THE tide of mud that swept down the mountainside stripped the bark from trees, tore tyres in two and broke cars down to mangled elemental parts. Then it settled thickly on the houses and smothered those inside them. To unearth the last of the bodies may take a fortnight.

AP



In need of homes, and reforms

The instant mass-burial of Las Colinas, a middle-class neighbourhood in Santa Tecla, a suburb of San Salvador, was the most dramatic effect of the earthquake that hit El Salvador on January 13th. Perhaps 750 lives were lost there alone—or more than half the quake's likely final death toll. The 3,000 coffins that the government asked Colombia to donate may, fortunately, be too many.

Normally disasters are hardest on the poor. Indeed, even in Las Colinas, houses not in the mudslide's path were unscathed, while elsewhere whole villages of more humble construction fell flat. Yet in these villages few people died, most managing to run outside before their adobe huts gave way.

In the country's last big earthquake, in 1986, the brunt was born by old buildings in San Salvador. This time, says William Pleitez, a UN consultant, because most of the capital was little affected, the economy may not be hit as hard. But with up to 250,000 homeless, the social cost will be higher.

The first guess of President Francisco Flores's government is that rebuilding will cost $1 billion, or 50% of the budget. But budget approval has been held up because the main opposition, the former guerrillas of the FMLN, want more flexibility in spending. For that reason, they have also called for Mr Flores to suspend a newly-introduced plan to adopt the dollar as the currency.

The earthquake may carry a political cost, too, for Mr Flores's conservative ARENA party, which has governed since 1989. Environmentalists lost a battle two years ago to stop housing development on the dry, sandy hillsides above Santa Tecla. Planning laws had been tightened to restrict building in high-risk areas. But the planning office, says Clarisa Rodriguez, a former city official, does not always enforce its own rules. New houses that flouted them continued to be built above Santa Tecla.

The wider question is what the small and poor countries of Central America, which are so often hit by floods, earthquakes and other disasters (see table), can do to make such acts of nature less devastating.

Vulnerable isthmus

Major natural disasters in Central America, 1972-2001

Country	Event	Year	Deaths
El Salvador	Earthquake	2001	1,200*
El Salvador, Guatemala, Honduras, Nicaragua	Hurricane	1998	18,600
El Salvador	Earthquake	1986	1,000
El Salvador, Guatemala	Floods	1982	1,120
Guatemala	Earthquake	1976	23,000
Honduras	Hurricane	1974	8,000
Honduras	Mudslide	1973	2,800
Nicaragua	Earthquake	1972	10,000

*Likely final figure

Sources: Centre for Research on the Epidemiology of Disasters, Louvain; Red Cross

Only two years ago, Hurricane Mitch laid waste neighbouring Honduras and Nicaragua, with lesser damage to the rest of Central America. A UN report concluded then that none of the countries had a proper disaster-management plan and that, when catastrophe struck, civil-defence bodies were sidelined by the politicians. As a result, once emergency teams called in for a particular incident had been disbanded, there was nobody to apply the lessons next time. The report said each country needed “a permanent state institution, staffed by trained disaster-management professionals” and armed with a mandate for preventive work.

El Salvador’s civil-defence agency, COEN, falls short. Despite complaints from some villages that aid did not reach them for three days, foreign aid-workers say COEN responded as fast as it could. But it does not have much say in long-term planning to mitigate the effects of future disasters. That involves strengthening laws, and enforcing them—hard in states cursed by corruption.

Such local bodies are especially important because, by the time foreign aid arrives, most quake victims will have died. People trapped by earthquakes rarely survive longer than eight to 12 hours, according to Debarati Guha-Sapir of the Centre for Research on the Epidemiology of Disasters, at Louvain University in Belgium. To avoid the chaotic duplication of ad hoc aid efforts, donors should support a permanent disaster-response team for Central America, she says.

Regional co-ordination has improved, says Kenneth Ellis, the director of the United States Agency for International Development in San Salvador; as a result, both international aid agencies and neighbouring countries were quicker to respond to El Salvador’s need. Nonetheless, when a calamity strikes a whole country, how fast it recovers depends less on how much aid it gets than on how well it has planned, in every area of policy, for the tragedy. El Salvador and its neighbours still have a long way to go.

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Canada

Après Bouchard

Jan 18th 2001 | MONTREAL
From The Economist print edition

IF THE idea of seceding from Canada could ever be sold to the people of Quebec, Lucien Bouchard had seemed the man to sell it. Last week, however, the mercurial Mr Bouchard abruptly resigned from his dual role as premier of Quebec and head of the separatist Parti Québécois (PQ). So is Canada saved?

Much of English Canada seems to think so. “The nightmare of Quebec separatism has receded,” said Roy Romanow, the outgoing premier of Saskatchewan. Such triumphalism may be premature: polls show almost 40% still want secession. But Mr Bouchard’s exit is certainly a heavy blow to an ailing cause.

In a referendum in 1995, Mr Bouchard, then the secessionists’ leader in the federal parliament, was brought in to rescue a floundering yes campaign. He took the secessionists to within a percentage point (or 50,000 votes) of achieving their goal of breaking up the country. That persuaded Jacques Parizeau, the PQ’s leader of the day, that the party’s best bet was to have Mr Bouchard running matters in Quebec city.

A truck driver’s son who loves Proust, he was much more popular than either his party or its raison d’être. His successor, who may not be chosen until May, will struggle to match his broad appeal. The main contenders are Bernard Landry, Quebec’s deputy premier and finance minister, and Pauline Marois, the province’s health minister. The leadership contest will see much soul-searching about the PQ’s function and future. Already, one of the party’s veteran ministers has asked whether it is time to drop Article 1 of its constitution: the commitment to an independent Quebec. Others disagree.

In five years as premier, Mr Bouchard balanced the books and governed firmly, trying to create what he termed “winning conditions” for another referendum. But he was always distrusted by the PQ’s “*purs et durs*”—the hardliners who questioned his constancy to the cause. Brought up in a secessionist heartland in northern Quebec, Mr Bouchard has swung from party to party, and flipped back and forth between backing a united Canada and an independent Quebec. In that, perhaps, he mirrored the ambivalence of Quebeckers at large.

The hardliners wanted a third referendum soon after the 1995 squeaker, and disliked their premier’s go-slow approach. The sniping came from an entrenched but small faction; Mr Bouchard won 91% approval at a party meeting last May. But it irritated the thin-skinned premier, as he showed in a speech in the legislature last month in which he attacked one of his most vocal critics for complaining that Jews believe they are the only people to have suffered.

Mr Bouchard devoted much of his resignation speech to lambasting the xenophobic, intolerant elements within the PQ. But he was probably telling the truth when he said that they were not the reason for his departure. There were personal motives. Aged 62, Mr Bouchard has two young sons from his marriage to a Californian wife who has never managed to hide her distaste for politics, and especially separatist politics.

One man who can take particular satisfaction from Mr Bouchard’s departure is Jean Chrétien, Canada’s prime minister. His tough approach to separatism was codified last year in the Clarity Act, which erects big legal obstacles to any break-up of Canada. To Mr Bouchard’s annoyance, Quebec’s voters reacted with indifference. In a federal election in November, the separatists suffered losses in the province to Mr Chrétien’s Liberals. That showed how unpromising were Mr Bouchard’s chances of ever becoming father of an independent Quebec. Even so, he would doubtless have stayed on for at least a day had he realised that he had chosen to resign on Mr Chrétien’s birthday.

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Mexico's Indians

One nation, or many?

Jan 18th 2001 | REAL DE CATORCE
From The Economist print edition

The new government of Vicente Fox promises to give more autonomy and cultural recognition to his country's Indian peoples. How can it square this with making them part of a modern state?

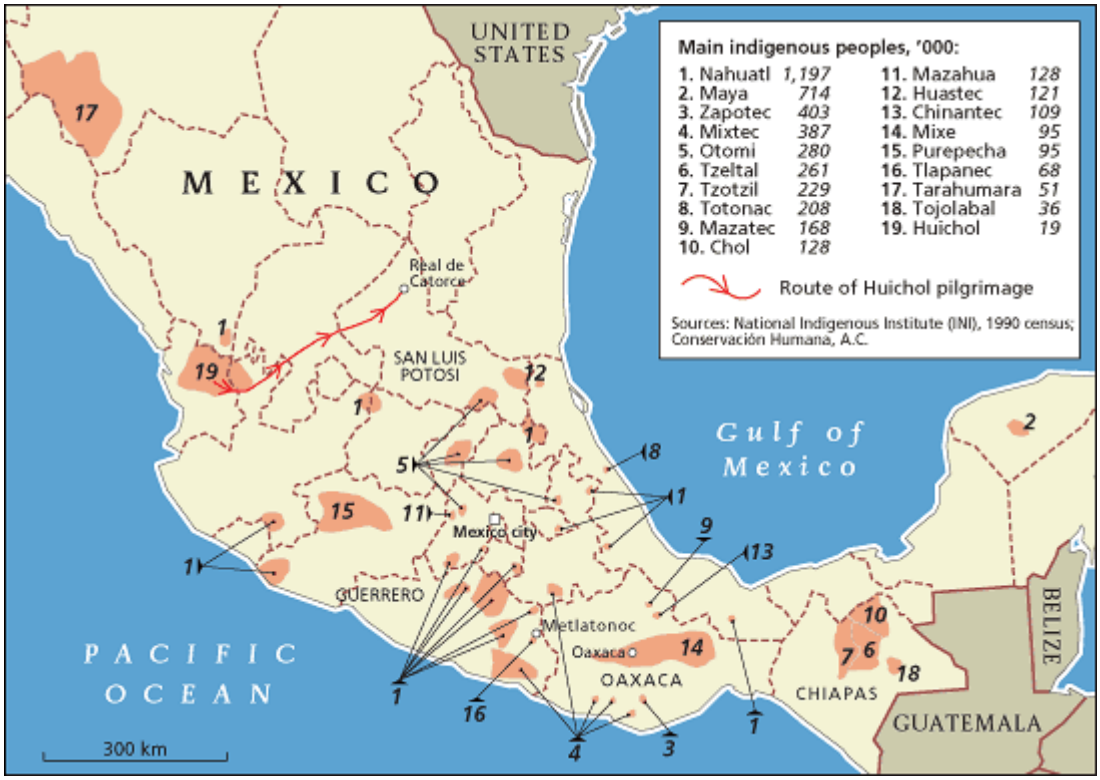
TWO concentric circles of stones, the outer one about five metres in diameter, sit between two rounded peaks known as Cerro Quemado, or Burnt Hill. From here the cactus-studded land falls away sharply to the west, down to a vast desert plain baking in the noon heat. This, say the Huichol Indians, is where the sun was born.

Blowing their minds

They call it Huiricuta. Just outside the town of Real de Catorce, in the state of San Luis Potosi, it is the sacred destination of an annual Huichol pilgrimage that begins in the Sierra Madre mountains near the Pacific coast. But the last time a Huichol walked the 500-odd kilometres (310 miles) from his homeland, crossed the plain and trudged up Cerro Quemado to pay homage at the solar birthplace was in 1963.

Since then, barbed-wire fences, roads and buildings have sprung up to block the route of the pilgrimage, on which the Huichols make offerings to their gods and collect peyote, an hallucinogenic cactus central to their religion. Recently, they have had to drive to the main sites. Now, some hope to walk the route once more.

Last month, the government of the state of San Luis Potosi, with money from the World Wide Fund for Nature, designated as a nature reserve an area of 140,000 hectares (540 square miles) around Huiricuta—because of its 48 species of cacti, but also to protect the Huichol route. It is the first time that an indigenous holy site of no archaeological interest has won protection in Mexico. Conservacion Humana, a charity that works with the Huichols, is now pressing other states crossed by the route to do likewise.



Recognition of Huiricuta may also be a harbinger of better relations between the Mexican government and the country's diverse mix of indigenous peoples. About 10m Mexicans, or one in ten, call themselves "Indians"—a once-reviled term that many now adopt. The government's National Indigenous Institute (INI) has identified 59 linguistic groups among them, though others claim that nearly 300 distinct languages or dialects are still in use. Yet until 1979, in all but a few schools, teaching was only in Spanish. And the remote Indian villages are still the poorest in Mexico, often lacking electricity, schools, clinics and other basic services.

"Governments have always been centralist, integrationist and with a certain Catholic-Spanish ethic. The discourse has varied, but this is still a very racist society," says Salomon Nahmad, an anthropologist and a former director of the INI.

Vicente Fox, who was sworn in last month as Mexico's president after seven decades of rule by the Institutional Revolutionary Party (PRI), says he wants to end the Indians' second-class status. He has created the post of commissioner for indigenous affairs and named Marcos Matias, a Tlapanecan from the state of Guerrero, as the first pure-blooded Indian to head the INI. Mr Matias wants to change the institute from being mainly a tool to get Indian votes for the PRI into one to get government help for Indians.

In addition, Mr Fox has sent to Congress a constitutional reform that would give Indian villages more autonomy in such things as electing their leaders and meting out justice. This bill was drafted by the previous government in talks with Zapatist rebels who have fought for Indian rights in the state of Chiapas. But it was then shelved.

The reform would mainly formalise what happens already. Unlike the United States, Mexico has never had Indian reserves. But many villages are so isolated that they enjoy a lot of autonomy anyway. Typically, local leaders take voluntary one-year posts, in charge of everything from repairing public buildings to settling disputes to organising festivals. But as Mexico modernises, such customs are clashing with western and *mestizo* (mixed-race) values, and with the law. Any reforms will have to answer the question: how far should autonomy go?

Custom and authority

Metlatonoc, in Guerrero, a bumpy four-hour drive from the nearest paved road, enjoys two dubious distinctions. Not only is it the second-poorest municipal district in Mexico but, at least according to recent press reports in Mexico city, Mixtec families in the villages surrounding Metlatonoc are selling their young daughters into slavery.

The reality, as usual, is more subtle. Arranged marriages are the norm among the Mixtecs, as for many other groups. The groom's family pays a sort of inverse dowry, typically 30,000-40,000 pesos ($3,000-4,000), to compensate the teenage bride's parents for bringing her up. But the youth in Metlatonoc dislike this. They say they choose whom to marry. Many think that paying money for a bride encourages her husband to mistreat her—the opposite of the traditional view that it makes her more valued.

On the other hand, some young women are falling victim to poverty and changing values, according to Abel Barrera, a human-rights worker from the nearby town of Tlapa. A few desperate families, he says, have had to sell their daughters outright. Others have arranged the jailing of a daughter who refused to marry the man her father picked. Lorenzo Garcia, the long-serving headman of Cochoapa, a village an hour from Metlatonoc, creases up with laughter: there was a girl last year, he recalls, who refused three or four of her father's choices and wanted a boy who was already married. Yes, they threw her in jail for a day, at the father's request. Then her parents took her and went north.

Human-rights workers sometimes go to the local authorities, but often in vain. "The municipal government's role is more conciliatory than anything," says Rutilio Viterbo, Metlatonoc's mayor. "We can intervene, but the villages don't take any notice of us."

Jurisdiction is an equally thorny question in a nearby cluster of 42 Indian villages that jointly set up an independent police force in 1995, frustrated because the state police did nothing against a crime wave. Like other community leaders, the Indian policemen receive no pay. Those they arrest are sentenced to hard labour and "re-education" by the village elders; and if a convict escapes, his police guard must himself serve the rest of his sentence.

Even critics agree that the community police have cut crime. But the arrest last year of a *mestizo* for cattle theft brought tension with the state police and nearby *mestizo* towns. Now, the 450-strong community police want official recognition, as well as vehicles and more weapons, in addition to the 20 one-shot rifles the state has given them. At a meeting last month, they voted to apply for a collective licence to hold high-power weapons. But they want to remain autonomous, and the authorities are unhappy. "They have to be incorporated into the municipal police. They can't operate outside the law," said an army officer after the meeting.

Drawing the line

Most members of Congress, including many from President Fox's own National Action Party (PAN), are afraid that giving Indian communities more autonomy will indeed put them above the law. The fear, says Felipe Vicencio, a PAN senator who does not share it, is born of ignorance; Indian issues have never been high on his party's agenda. Nor that of other parties: most legislators "have no idea of the real Mexico and its cultural diversity," says Mr Nahmad, the anthropologist. The government insists that state and federal laws will always take precedence over Indian ones. But defining the boundary is infinitely complex in practice.

Polygamy, for instance, can be common in some groups. Does forbidding it mean disrespect for Indian customs? Does allowing it offend women's rights? Sentences vary enormously. In some places, the most severe punishment is to deny the convict and his parents a burial in the village cemetery. In others, he may be put in the stocks, or stoned, or publicly ridiculed by being made to parade around the village with a turkey on his head. Which are acceptable, both to the criminal and to his victims? Felipe Ortiz, a church official in Metlatonoc, foresees a problem with autonomy: "When it suits people, they'll follow the indigenous law, but when it doesn't they'll go somewhere else where other laws apply."

Still, there is already an example of how autonomy might work. In 1998, the state of Oaxaca changed its constitution to recognise the customs of its 16 Indian groups, partly because local politicians feared another Chiapas-style uprising there. Again, it was giving official recognition to an existing truth: 418 of the state's 570 municipalities now choose their mayors by traditional assemblies rather than secret ballots, but almost all of them had, with a little legal manoeuvring, been doing it before.

Justice is trickier. But in general, a community in Oaxaca may administer its own justice and its members must abide by it, as long as it respects human rights. And the law can be flexible: Mazatec Indians are allowed to take magic mushrooms for traditional purposes, just as the Huichols have a special federal dispensation to blow their minds on peyote. Nonetheless, the boundaries are fuzzy. "There is no legal doubt that state and federal laws apply," says Bernardo Vasquez, a state official, "but there is a process of reconciliation with reality." A state-government office works full-time on that process, resolving

disputes as they arise.

To sell the idea of autonomy to Mexico's Congress, Mr Fox will thus need to explain carefully how he would define its limits. He will also need to say more about his plans for development. "What use is autonomy," asks Mr Matias, the new INI director, "if it traps you in poverty?" Mr Fox has promised more money for education, and microcredit schemes for small businesses, but does not yet seem to have much of a feel for the needs of Indian communities. Before his swearing-in, he once said that, since bringing electricity and services to the remotest villages was expensive, the answer was to encourage the villagers to move to nearby towns. That was realistic, perhaps, but not very sensitive to Mexico's cultural diversity.

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Venezuela

Twist in the knickers

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From The Economist print edition

IF THERE is one thing calculated to make a Latin American military man see red, it is to have his virility doubted. So irritation was unconfined when several commanders in Venezuela's armed forces recently received women's underwear through the post, along with pamphlets insinuating that this was all they were fit to wear because of their failure to overthrow the country's elected president, Hugo Chavez.

Into action went the sleuths of military intelligence (whose acronym is DIM). After weeks of investigation, the intelligence agents achieved a breakthrough when *El Nacional*, a Caracas daily, published a letter from Pablo Aure, a law professor and columnist. He wrote that the armed forces should no longer be termed *castrenses* (military) but *castrados* (castrated). "That brave image we once had of the Venezuelan generals has gone," he went on. Nowadays "we simply imagine them parading around in multi-coloured panties."

In fact, Mr Chavez, a former army officer, had himself revealed the existence of the pamphlet campaign and its use of "intimate garments". But how did Mr Aure know they were knickers? "They could have been underpants or brassières," declared General Ismael Hurtado, the defence minister. After he had refused to obey a summons from a military court, on the ground that Venezuela's new constitution, brought in by Mr Chavez, prohibits military trials for civilians, last week Mr Aure was arrested. He spent the night, stripped to his underwear (boxers, or briefs?), at DIM headquarters.

Several civilian officials criticised the army's action. Mr Chavez, normally voluble, said nothing. Imprudently, the defence minister pressed his point. Waving a pair of the offending panties before journalists, who could barely contain themselves, he insisted that Mr Aure was merely the figurehead for a group so clever that each of the 140 pairs of pants was of a different hue. "Thank God they are all new," conceded the general.

Mr Aure, who suffers from high blood pressure, was released on health grounds, and is unlikely to face a military court. But once the laughter has died down, some serious questions will remain. Why did the president not protest when his own constitution was being broken? And how widespread is discontent within the armed forces?

It is widely assumed that the knickers were dispatched by dissident officers. The president has placed many military commanders in government jobs, and likes to refer to his elected government as "civil-military". That makes some democratic officers uneasy. Mr Chavez remains hugely popular, and for now he is politically impregnable. But one day he may come to rue having turned his generals into a laughing-stock.

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Trinidad's post-election wrangle

Jan 18th 2001 | PORT OF SPAIN
From The Economist print edition

THE elderly president of Trinidad and Tobago is no pushover. A decade ago, when he was prime minister, Arthur ("Robbie") Robinson, though held hostage at gunpoint by Muslim insurrectionists, called on the troops outside to "attack with full force". Now he is showing equal steel towards Basdeo Panday, the current prime minister and a former ally.

At the opening of Trinidad's parliament on January 12th, Mr Robinson ignored a 52-page speech written for him by the government. Instead, he delivered a short homily, aimed at Mr Panday, on the need for spiritual guidance.

Mr Panday wants seven supporters of his United National Congress (UNC) who lost lower-house seats in last month's general election to be appointed to the Senate, so he can make them ministers. To elevate so many losers, says the president, would be wrong.

Trinidad's president has rather more than ceremonial power. Even so, the constitution seems to instruct him to rubber-stamp the prime minister's choices for both senators and ministers. Mr Robinson thinks otherwise.

The seven would-be senators may file a legal challenge. In theory, the president is not answerable to the courts. Meanwhile, the opposition has asked the courts to disqualify two victorious but, it claims, unqualified, UNC candidates. It plans to challenge others it accuses of cheating.

Happily, the argument is taking place in peace. That may be harder to keep in nearby Guyana. On January 15th, in a curious ruling, a judge decided that the 1997 general election was legally void. However, a new election is due on March 19th. Trinidadians will hope their courts can move faster, and speak more decisively.

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China's man pushes out Hong Kong's woman

Jan 18th 2001
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Anson Chan's departure means one protection fewer for Hong Kong's autonomy, and one victory more for Tung Chee-hwa

Reuters

THOUGH China was keen to stamp its sovereignty on Hong Kong after it got the territory back on July 1st 1997—"Love the motherland, love Hong Kong", went the slogan—the stamping, it knew, had limits. The point was made on the night of the handover. The outgoing British governor, Chris Patten, stood under the Union Jack. The new "chief executive", Tung Chee-hwa, stood under the flag of the People's Republic of China. But Anson Chan Fang On-sang, head of the civil service and the territory's number two, stood bang in the middle. Mrs Chan, a loyal servant under British rule, stood for stability and continuity: qualities almost as important to the Chinese as patriotism.

The Chinese continued to recognise the importance of Mrs Chan even when Mr Tung wanted to be rid of her. The chief executive is a decent enough man, yet he entered office with a paternalistic outlook and little understanding of how power works in Hong Kong. He relied on outside friends and advisers, and expected orders to be carried out as soon as they were barked. He quickly met the inertia of a civil service used to forming and evaluating policy as well as carrying it out. Mrs Chan, who epitomises the tradition, became a focus for his frustrations.

The authorities in Beijing, ironically, understood better the damage to Hong Kong's international standing, not to mention civil-service morale, should Mrs Chan go. In perhaps their most forceful intervention yet in Hong Kong, Mr Tung's wish was countermanded. In the spring of 1999, Mr Tung with a strained smile declared his joy that Mrs Chan was after all going to work with him till the end of his first term, in mid-2002.

If the chief executive were elected by universal suffrage rather than by a band of appointees, Mrs Chan would win by a landslide. Mr Tung is seen as distant, bumbling and patriarchal, always quicker to promote "one country" over "two systems". Besides, he speaks Cantonese with a "foreign" (ie, Shanghainese) accent. Mrs Chan is seen by many in Hong Kong as having the competence and the guts to defend Hong Kong's autonomy, and has been referred to as "Hong Kong's conscience". It is a label that has been derided by some Hong Kong democrats who feel they better deserve the title: Mrs Chan is, after all, a conservative embodiment of an undemocratic system.

Yet no one doubts her integrity. Mrs Chan said before the handover that if she were ever forced to act against her conscience, she would resign. And that is why the reasons for her now wanting to step down in April, with the explanation that she wants to spend more time with her family, are not being believed.

Her conscience has been sorely put to the test since 1997. Mrs Chan is known to have opposed the government's decision to ask Beijing to overturn a ruling of Hong Kong's Court of Final Appeal on the rights of abode of mainland children born to a Hong Kong parent: a humiliation to the court. She has slapped down mainland officials who try to mix politics across the Taiwan strait with business in Hong Kong. She disagreed with the treatment of a close aide of Mr Tung's, Andrew Lo Cheung-on, who tried to influence opinion polling of the chief executive's popularity. As Mr Lo's nominal boss (she is head of the civil service), she wanted Mr Lo to go, after an inquiry had found him not to be a credible witness, but Mr Tung refused to sack him. She has also complained of people attempting to drive a wedge between herself and Mr Tung, and feels she has been left out of the loop on several decisions.

Moreover, Mrs Chan may well have decided that things will only get worse. Mr Tung is appalled at the way Hong Kong's freedoms allow the Falun Gong, branded as subversive on the mainland, to

demonstrate freely in the territory. In a striking example of freedom, the sect was allowed to use Hong Kong's city hall for a large gathering last weekend. Communist-owned newspapers in Hong Kong lashed out at the government, a source of pride to some officials, but an embarrassment to the chief executive.

Mrs Chan has been an ardent defender of basic freedoms. Yet soon the local government will have to draw up a law against subversion, something constitutionally required of Hong Kong, but long postponed with Mrs Chan's help. Lastly, while Mrs Chan has pressed for a more public debate about democratisation in Hong Kong, the only changes to the political system that Mr Tung contemplates would serve merely to make officials more loyal to him.

The chief secretary's likely replacement is the current financial secretary, Donald Tsang Yam-kuen, a man who underscores his loyalty to Mr Tung by addressing him as *louhbaan*, Cantonese for boss. Mr Tsang has earned respect at home and abroad for the way he dealt with the effects of the Asian financial crisis: whether he is prepared to wrestle with Mr Tung and Beijing on behalf of Hong Kong's autonomy is less clear. Either way, Mrs Chan's departure means one check fewer against the centralisation of political power in Hong Kong, and against mainland encroachments on its way of life.

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In Hong Kong they must be kayu

Jan 18th 2001 | HONG KONG
From The Economist print edition

THERE are no hard numbers, but the evidence from Asia's expatriate community is unequivocal. Three years after its handover from Britain to China, Hong Kong is unlearning English. The city's *gweilos* (Cantonese for "ghost men") must go to ever greater lengths to catch the oldest taxi driver available to maximise their chances of comprehension. Hotel managers are complaining that they can no longer find enough English-speakers to act as receptionists. Departing tourists, polled at the airport, voice growing frustration at not being understood.

This worries the government of a Hong Kong competing with rival cities to entice multinational companies to choose it as their regional headquarters. Most jealously, it watches that other formerly British city-state, Singapore, which boasts virtually universal command of Singlish, a rattling-gun, Sinified descendant of the global tongue. A sample: "Our English is *shiok* [beautiful], theirs is *obiang* [bad]. They're *kayu* [stupid] in Hong Kong, *lah*!" It works fine for the international set.

The comparison with Singapore is not the only one unfavourable to Hong Kong. The people of Malaysia and Thailand, both poorer and less efficient than those in Hong Kong, speak better English these days. Filipinos, thanks to their American colonists, are almost fluent.

Perhaps most damning of all, however, the new motherland itself could soon overtake Hong Kong. Not in Sichuan, perhaps, or in remote Gansu. But anecdotal evidence—samples conducted in six taxis and three all-night shops in both Shanghai and Hong Kong—already gives Shanghai the fluency lead over the former colony by five to four.

Indeed, if ever there has been a boom for the English language, it is in China today. When the Wall Street Institute, the world's largest English-language teaching organisation, recently opened a branch in Beijing, "they were lining up so long it blew every record out of the water," recalls Peter Forsyth, a director.

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The Philippines

Enveloped

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From The Economist print edition

THE collapse of the impeachment proceedings against President Joseph Estrada on January 17th does not necessarily mean he will escape judgment. As the Senate adjourned the trial of Mr Estrada indefinitely, thousands of demonstrators gathered in Manila and other cities to pronounce their own verdict: that the Philippines' democratic constitution had failed to rid the country of a corrupt president, and that Mr Estrada will have to be removed from office by another "people power" revolution of the kind that deposed Ferdinand Marcos in 1986.

By the start of the 23rd day of hearings in Mr Estrada's impeachment trial, the prosecution had presented a plausible case that the president had illegally enriched himself and his cronies during his two years in office, and should be dismissed. All the prosecutors needed was for the Senate, which was conducting the trial, to permit the unsealing of a (manila?) envelope containing records submitted to the court by Equitable PCI Bank, the country's third-biggest.

These records, the prosecution contended, were crucial to their efforts to prove their corruption case against Mr Estrada, by showing that he kept a number of secret accounts, one of which allegedly contained 3.3 billion pesos ($60m). The defence argued that the bank records were irrelevant, because the offences they were intended to prove were not specified in the impeachment charges. Pro-Estrada senators, in a carefully planned move, called for a vote on the question. The Senate then voted 11-10 to prevent the envelope from being opened. One pro-government member danced with glee. One opposition senator burst into tears. The Senate chairman was so disgusted that he immediately resigned his post.

More importantly, all the principal prosecutors, who are members of the House of Representatives, also quit the trial, denouncing it as a charade. They argued that the vote to prevent them from presenting the bank records as evidence was tantamount to a vote to acquit Mr Estrada. When, the next day, the Senate met to resume its hearings, the trial was adjourned *sine die* because no prosecutors were present. For all practical purposes, the impeachment proceedings were finished. And even if the trial resumes and the fateful envelope is opened, it is now plain that Mr Estrada has enough loyalists in the Senate to make the two-thirds majority needed to remove him unattainable.

But that was not the end of the story. Within hours, thousands of opposition demonstrators had gathered on the Epifanio de los Santos Avenue, known to all as EDSA, to express their disdain for the Senate and demand Mr Estrada's immediate resignation. The choice of EDSA was deliberate. It was there, in 1986, that tens of thousands of Filipinos blocked the roadway to prevent President Marcos's troops from attacking the perpetrators of a failed coup against him. Rather than confront such crowds, Marcos fled the country, and EDSA remains a shrine to this day. Just in case Mr Estrada did not take the point that he could be about to suffer Marcos's fate, the demonstrators at EDSA were addressed by three old heroes of the people-power revolution: ex-Presidents Corazon Aquino and Fidel Ramos, and Cardinal Jaime Sin, the primate of the mainly Roman Catholic nation.

But 2001 is not 1986. For a start, Mr Estrada is no Ferdinand Marcos. The incumbent president may be corrupt, but he has never been accused of the widespread brutality that Marcos was blamed for. Unlike Marcos, Mr Estrada can claim a popular mandate, having won the largely fair 1998 presidential election by a landslide. Moreover, the armed forces and police have declared their support for the constitution.

Even so, military officers often have a sharper vision of the Philippines' potential as a modern East Asian state than do Mr Estrada and his cronies at the presidential palace. The armed forces' chief of staff, General Angelo Reyes, has said his men will "thwart any attempt by any vested-interest groups to exploit the situation to their advantage". General Reyes, however, likes to chose his words carefully. If the crisis should lead to violent riots, it should not be taken for granted that the army would blindly follow Mr Estrada's orders, if it believed him to be the ultimate reason for the disorder.

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Power play in Taiwan

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THE Taiwanese government went into shutdown mode this week, all thanks to a bitter row over the future of the country's fourth nuclear power plant. Work was started on the $5.2 billion plant when Taiwan still had a Kuomintang (KMT) government; one-third is now built. The Democratic Progressive Party (DPP), which defeated the KMT in a presidential election last March, has consistently opposed nuclear power, partly for safety reasons—Taiwan is earthquake prone—and partly because of worries about what to do with the waste on an island Taiwan's size. The KMT says the plant is essential to the island's prosperity. The DPP suspects it is more interested in kickbacks surrounding the project, which might have to be repaid were it cancelled.

In October, Chang Chun-hsiung, the prime minister appointed by the DPP president, Chen Shui-bian, announced that building work on the plant would be stopped. An apoplectic KMT, which after 55 years in power is not inclined to bow out gracefully, considered whether to seek Mr Chang's dismissal or try to achieve the "recall"—sacking—of President Chen himself. Cooler heads prevailed, suggesting that the prime minister did not have the power to cancel the project. The budget passed by the legislature, being an act of parliament, had the force of law; it could not therefore be changed by the executive without legislative approval. Behind the legal argument lies the practical question of who has the upper hand in Taiwan—the legislature, where there is still a KMT majority, or the cabinet.

The question was given to the Council of Grand Justices to ponder. Its verdict on January 15th blamed both the cabinet, for not consulting the legislature before cancelling the project, and the legislature, for not listening to the prime minister's explanation of his action. Most of the justices are thought to have taken the view that the prime minister had acted unconstitutionally, but to have said so publicly would have triggered Mr Chang's resignation and damaged political and economic confidence.

That may happen anyway. The justices want the executive and the legislature to start again and go through the correct constitutional moves. But if the legislature turned down Mr Chang's decision, which is all but inevitable, he would probably have to go.

Amid all this gamesmanship, the work of both the cabinet and legislature remains almost paralysed. It is no surprise, then, that calls for Mr Chang simply to restart work on the plant, and thus save his job, are mounting, as is condemnation of the DPP for not appreciating the reality of its position as a minority government and adjusting its policies accordingly.

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Thailand buys Cambodia

Jan 18th 2001 | PHNOM PENH
From The Economist print edition

"IN CAMBODIA, no ice-cream," a Thai woman at Bangkok airport warned the little girl who was travelling to Phnom Penh. But the child knew better. The street kiosks and supermarkets of Cambodia have long been selling ice-cream and a huge array of other desirables, from plastic chairs to prickly-heat powder, most of them imported from Thailand.

The Thais long ago realised that they had more to gain from economic dominance of Cambodia than from military invasions. Having inundated the country with manufactured goods, the Thais have branched into even more lucrative service industries. "It's inevitable really," says a businessman. "Someone has to develop this country and clearly it's not going to be the Cambodians."

Two Thai telephone companies, Samart and Shinawatra, offer mobile-phone services. Thailand's Bangkok Airways was the first to fly direct from Bangkok to the temples of Angkor Wat. At least three Thai banks are open for business in Phnom Penh. Dollars and Cambodian riel are widely accepted, but Cambodians near the border compare prices in Thai baht.

Thailand's military brass used to do good business in timber and precious stones with the Khmers Rouges. That cross-border trade is waning, with the rebels finished, the rubies running out and Cambodia bowing, albeit half-heartedly, to international pressure about logging. But the resourceful Thais have successfully branched out into tourism and gambling.

The temples of Angkor Wat are architecturally more impressive than anything Thailand has to offer. Thai generals, the kings of prostitution and go-go bars in their own country, had long been frustrated by a ban on gambling. Once peace returned to Cambodia, they woke up to the fact that gambling there is legal as long as the gamblers are not Cambodians. Land is cheap and the Cambodian armed forces are keen to strike deals. So the idea of pop-across-the-border gambling was born.

Koh Kong, an island resort hacked out of the forest, has been welcoming busloads of Thai gamblers for more than two years. So has the resort at Pailin, once a stronghold of the Khmers Rouges. "The Thai government doesn't encourage Thai nationals to cross over, but on the other hand it does nothing to stop them either," says a manager at the Pailin casino.

There are four casinos at Poipet, a dusty one-horse town favoured by promoters because it is close to a border crossing. Construction continues through the night on floodlit building sites for two more. Unlike Pailin and Koh Kong, which are simply no-nonsense gambling resorts, Poipet sees itself as a future Las Vegas. A casino under construction is called Star Vegas. Ironically, though, the call-girl market in Poipet is monopolised by the Thais' traditional enemy in Cambodia, the Vietnamese.

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America and North Korea

Hard going

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From The Economist print edition

ONE of the disappointments of his final months as America's president, Bill Clinton has said, was the failure to clinch a deal with North Korea to end the production and export of its medium- and longer-range missiles. George Bush has suggested he may go on exploring such a deal, provided it can be verified (Mr Clinton's sticking-point too). Yet if America's continuing agreements with North Korea are anything to go by, even hard-fought ones can come unstuck. Far from being a model to work from, the 1994 "framework" agreement which traded two western-designed, less proliferation-prone nuclear reactors for the freezing and eventual dismantling of North Korea's plutonium production is a study in frustration all round. And it is running into new obstacles.

The optimistic target for completion of the first of the two reactors was 2003. In fact, work to level the hills in the way at the Kumho site is not yet finished, and the first concrete is unlikely to be poured before the end of next year. Typically, such reactors can take seven years to build. Meanwhile KEDO, the American-led consortium supposed to master-mind the project, and which also includes South Korea, Japan and the European Union, has to beg and scrape each year to find the cash for the 500,000 tonnes of heavy fuel oil promised to North Korea to tide it over until electricity from the two new reactors comes on stream.

The delays are not KEDO's fault. North Korea's own provocative past behaviour has repeatedly delayed the project, sometimes for months on end. Recently, the regime has been trying to squeeze more hard currency out of KEDO than the agreements stipulate by withdrawing some of its workers from the site. But a lot of the delay is just caused by the difficulty of negotiating complex protocols with a suspicious regime completely unused to normal international practices. Kim Jong Il's secretive visit to Shanghai this week, the North Korean leader's second factory-tour to China in eight months, suggests he is starting to understand how much North Korea has to learn.

But the project has recently hit some big technical snags too. Although the reactors follow a South Korean standard model, they incorporate American design and technology. General Electric, for example, has been asked to supply turbo-generators, but is chary of doing so without better liability cover than North Korea seems ready or able to provide. If KEDO is forced to turn to other suppliers, possibly Japanese ones, parts of the reactor design will have to be adapted, causing further delays. Meanwhile, the cost to North Korea of upgrading its shambolic electricity grid so that it can handle safely the large amounts of power to be generated by the new reactors is being variously estimated at anything between $300m and over $3 billion. And North Korea has still to satisfy international inspectors about its past plutonium production at its original reactor site at Yongbyon. No nuclear parts can be sent from America or anywhere else till it does.

In other words, more delays seem inevitable. This has led some to propose changing the 1994 agreement, either to supply only one nuclear reactor, with help for the upgrading of the power grid, or else to substitute conventionally-powered plants, using coal or oil. That way, North Korea would more quickly get the electricity its economy badly needs. But there are big drawbacks. One is that South Korea was looking to the North Korean reactor project to promote sales of its reactors elsewhere. The other is that the 1994 agreement was signed by America chiefly to halt, and eventually dismantle, North Korea's rogue nuclear industry. The high-prestige, better designed nuclear reactors were what clinched the deal. Without them, North Korea may go back to building its own.

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Indonesia

Even nastier

Jan 18th 2001 | BANDA ACEH
From The Economist print edition

IT SOUNDED encouraging: a “moratorium on violence” in Aceh, one of several Indonesian provinces where rebels are demanding an independent state. But hours before it began on January 15th, fighting raged round the industrial city of Lhokseumawe. This truce seemed as doomed as the seven-month ceasefire that has just expired, during which some 500 people died.

EPA

The pressure mounts

The “moratorium” is supposed to be a chance for the government and the Free Aceh movement, GAM, to sit down somewhere in Europe and discuss the political issues separating them. The division is great. Before the agreement was signed, the vice-president, Megawati Sukarnoputri, had said that Aceh must remain part of Indonesia. The Free Aceh rebels say they will not give up their aim of a separate state. Nor is the government likely to favour the rebels’ demands for an election as part of a solution. It has rejected anything that smacks of a referendum like the one held in East Timor in 1999, which would probably produce a solid vote for independence.

The police in Aceh added to the feeling that the truce would fail when they announced they would continue to seize weapons and hunt down suspected GAM sympathisers. Lorryloads of heavily-armed Indonesian police and soldiers remain a common sight, even in the capital, Banda Aceh, which for years was barely touched by the fighting.

Throughout Aceh most people stay in after dark. The sound of the occasional bomb blast surprises no one. The rebels seem stronger than ever. With much of the rest of Indonesia in a state of chaos, time may be on the rebels’ side, and they seem to realise it. Nashruddin Ahmad, a spokesman for the rebels, says that if the government is intelligent it will get out now, and not just out of Aceh but also out of Irian Jaya at the other end of the country.

Although the government dismisses such talk, it will struggle to win back the confidence of the Acehnese after years of oppression. Some onlookers say the government was “about 70%” to blame for the failure of the previous truce. Even its offer of wide autonomy is bogged down in arguments about how much of the province’s income from oil and gas it should keep. Soldiers are regarded by most people as an occupation force. Ordinary Acehnese tell of how they barely escaped with their lives when caught in an army “sweeping” operation.

If nothing comes of its negotiations with the GAM, the government hints that it may talk to what it calls “other” Acehnese groups. It threatens to hive off much of the centre and south into a new province named Galaksi, an abbreviation coined from its constituent parts. There is also a suggestion to hive off the west coast, an area unaffected by violence until two years ago, since when it has become a battleground.

Despite government claims that these changes would be welcomed, informed Acehnese say they have almost no popular support at all. The effect of the changes would be to divide the territory occupied by the historical Aceh sultanate, presumably in the hope that it would quell dissent, a strategy adopted by Indonesian governments elsewhere in the past. It could also sow the seeds for an even nastier war. “As in East Timor, the government aims to set Acehnese against Acehnese,” says an analyst gloomily.

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Schemes and scandals in Ukraine

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One of the largest countries in Europe is embroiled in a lurid scandal which could stunt reform, threaten independence and bring it back into Russia's orbit

WHETHER the truth is simple or complicated, both varieties are spectacular and disturbing. The straightforward version would go like this: the president of Ukraine and his top officials are foul-mouthed thugs who plotted the murder of a troublesome journalist. A bodyguard taped their conversations, escaped abroad, then leaked excerpts to the opposition. Now the authorities are fighting back, by trying to scupper the country's nascent reforms and, in exchange for support, hand its lucrative energy-distribution system over to Russia.

That is the simpler version of the past few months' events, though strongly denied by those it traduces. For those who like their scandals spicier, other explanations abound in Ukraine's political circles: a foreign country—Russia, the United States or Israel, depending on your taste—or a tycoon or a political opponent is behind the whole affair, including murder and either bugging conversations or faking tapes, to blacken the president's name and oust him from power.

All this matters because Ukraine is so big—and so weak. After Russia, it is the largest country in Eastern Europe, with nearly 52m people. If it falls back into the Kremlin's orbit, which, like neighbouring Belarus and other former Soviet republics, it shows signs of doing, that would firmly re-establish Russia as the regional superpower. If it can entrench independence, democracy and a law-based market economy, it would give the European Union (and NATO, with which—to Russia's annoyance—it has a privileged arrangement) a prosperous and stable eastern neighbour, rather than a bankrupt menace that leaks crime, disease and many thousands of illegal immigrants. It would also be a valuable example to Russia itself.

EPA

In the past year, the signs have been mixed. The president, Leonid Kuchma, has been increasingly friendly to Russia's Vladimir Putin. Russian companies have been snapping up the choicest and most lucrative bits of the Ukrainian economy, such as its aluminium industry, at bargain prices; the government seems as blithe about this as the president. Public-spiritedness is weak, corruption rampant, the press docile.

But there have been flickers of good news too. Ukraine has managed a tricky renegotiation of its foreign debt, nudged up its foreign-exchange reserves, cut the annual rate of inflation from 377% five years ago to around 20% at last count, and has seen its economy grow by 6% in the past year. This greatly surprised all concerned, including the IMF, which predicted 2%. Indeed, the country is now growing nearly as fast as Russia (7% last year),

though Ukraine faces much harsher conditions. It has little energy of its own, for instance; most of it comes from Russia. And whereas the rouble tumbled by 75% in 1998, boosting Russian industry, Ukraine's currency dipped only slightly.

Blithe Kuchma

So what went wrong?

The current scandal revolves around three sets of facts. One is the disappearance in September of a journalist of Georgian background called Georgi Gongadze. A mutilated body was discovered a few weeks later, which relations said was his. Last week the Ukrainian authorities grudgingly agreed.

Expletive (not) deleted

"Kuchma": So take this guy, see, the one at *Ukrainska Pravda* [an independent political "webzine"].
Unidentified voice: Yeah, we're gonna decide what to do with him. He's really gone too far.
"Kuchma": *Ukrainska Pravda*, you know, it's just too fucking much. Scumbag. Fuck it. The Georgian guy.
Voice: Gongadze?
"Kuchma": Yeah, Gongadze.
Voice: But who's paying him?
"Kuchma": ...Well, deport the cunt to Georgia, just get rid of the cocksucker.
Voice: Drive him to Georgia and get rid of him there.
"Kuchma": Get the Chechens to kidnap him and get rid of him.

Gung-ho Gongadze

Second, a former member of the presidential security service, Mykola Melnichenko, produced tape recordings of voices resembling Mr Kuchma's and other important Ukrainians, discussing, in extremely colourful and grubby language, the illegal solution to various problems, including—apparently—Mr Gongadze's elimination (see transcript to the right).

Third, the very bad relations between the presidential administration and the government have worsened sharply. A deputy prime minister, Yulia Timoshenko, is facing criminal charges for tax fraud, smuggling and forgery. These relate to her previous business activities in the gas industry, which she now says she is reforming. The rest of the government is under pressure too. Sniping by the president's men has, among other things, forced the foreign minister to resign. In particular, the prime minister, Viktor Yushchenko, whom most Ukraine-watchers in the West see as the country's best hope, is under constant attack. Meanwhile Mr Kuchma has done a deal with Mr Putin, making it easier for Russian companies to buy Ukraine's energy companies.

The line-up for a punch-up

	Job	Qualities	Assets
Kuchma's hard men			
Yuri Kravchenko	Interior minister	Flexibility, ruthlessness	0.5m men in uniform
Mykhailo Potebenko	Prosecutor-general	Loyalty	Jails
Leonid Derkach	Security-service chief	Deviousness	Men not in uniform, files, phone taps
Mykola Azarov	Tax chief	Cunning	Tax raids
Kuchma's tycoons			
Hryhori Surkis	Businessman	Muscle, ruthlessness, ambition	Football team, media, property
Viktor Medvedchuk	MP, businessman	(as above)	(as above)
Viktor Pinchuk	MP, industrialist	Brains, charm	Friend of Kuchma's daughter, media
Oleksandr Volkov	Businessman	Manipulates parliament	Media, money
Andrei Derkach	MP, businessman	Genes, KGB training	Connections, muscle, money
Government			
Viktor Yushchenko	Prime minister	Unflappability	Western trust
Yulia Timoshenko	Energy minister	Steeliness, charm	Fast learner, rich

Source: *The Economist*

What is really going on, and how the three sagas fit together (if at all), are unclear. Why was Mr Gongadze killed? He was not an important journalist. Why is there such a furore, when, sadly, journalists are murdered every month or so in Ukraine? Are the tapes genuine or forgeries or doctored versions of real conversations? Who recorded (or faked) them? And to what end? Who helped Mr Melnichenko escape? Was the legal offensive launched against Mrs Timoshenko because she is upsetting the corrupt tycoons close to the presidential administration, as she insists. Or for some other reason?

What does seem unlikely is that a junior security guard would be able to record hundreds of hours of confidential conversations simply by placing a tape recorder under a sofa, which is what Mr Melnichenko claims to have done. It also seems unlikely that a foreign government would have got involved in such an escapade, though some normally serious-minded Ukrainians believe that America is eager to replace Mr Kuchma with Mr Yushchenko. For this, the only (circumstantial) evidence is that the Ukrainian-language service of Radio Liberty, which the American government finances, has been very hostile to Mr Kuchma of late, giving lots of airtime to Mr Melnichenko. A simpler, and more plausible, explanation is that the president's staff, Nixon-style, made the tapes for in-house purposes and that someone then stole or bought them.

In any event, the scandal has clearly shaken Mr Kuchma and his team. But it has not toppled them, and as things stand it seems to be fading. Public protests demanding justice in the Gongadze case have mostly fizzled out, partly thanks to police harassment of demonstrators. The media, largely controlled by pro-presidential tycoons, has cast doubt on both the recordings and the motives of the people using them. The presidents' men have organised counter-demonstrations, mainly consisting of unenthusiastic state employees.

That could change if Mr Melnichenko releases more damaging tapes. These, he claims, contain direct evidence of corruption at the highest level, though Mr Kuchma, a volatile former factory director, seems to have a strong stomach when it comes to scandal. One of the clans around his administration could take advantage of the affair to supplant its rivals, or even put its own man in at the top. Reformists, and Ukraine's friends in the West, are hoping that Mr Yushchenko will eventually become president. The current scandal could improve his chances—or prompt a crackdown that might dash any hope of his getting power.

There are disturbing parallels to events in neighbouring Belarus, where over the past five years a more-or-less democratic political system has been tweaked and squeezed into near-oblivion by a paranoid president and his rich and powerful backers, some of whom have a hot line to the Kremlin.

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Ukraine's bitter diaspora

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IT is depressing enough being Ukrainian. When you could have had a comfortable life in one of the world's nicest countries, like Canada, it is even worse. Ukraine's diaspora is having a "collective nervous breakdown," in the words of one activist, as life-long hopes for independent Ukraine shrivel in the face of the impoverished and corrupt reality.

Other East Europeans are luckier. Former exiles fit well enough into post-communist Poland. In the Baltic states, returned émigrés provide two presidents, a foreign minister and a clutch of other respected officials. Slovenia's last prime minister spent most of his life in Argentina. Armenia would be sunk without money and lobbying from its rich and powerful diaspora: Kerk Kerkorian, a prominent American-Armenian, announced this week that he would give $70m towards various projects in the homeland.

Ukraine, which has the largest diaspora by most counts, is different. No émigré occupies a public position of much prominence, with the marginal exception of the prime minister's American-Ukrainian wife. Most of those who have come back and gone into business have done poorly. Diaspora Ukrainians are unpopular, generally seen as know-alls and nutty nationalists. Most of them think the country's rulers are traitors, crooks or both. Fund-raising and lobbying for the home country have waned sharply.

The real problem is a completely different view of history. Most diaspora activists are from western Ukraine, swallowed by the Soviet Union only in 1939. Some people there decided that the Nazis were the lesser of two evils and fought alongside them; almost all are fiercely anti-communist. Guerrilla warfare carried on until the 1950s. The rest of the country, by contrast, is more nostalgic for the Soviet Union, and less anti-Russian—despite Stalin's artificial famine, which killed millions in the 1930s.

Now the diaspora is stuck. A few have found love, if not money, in their not-quite-homeland. Some do good works. Many seem ready to give up. "I have to reinvent myself," says one Canadian- Ukrainian, who has devoted most of his life to the cause.

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Russia

Are the (mini) parties over?

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From The Economist print edition

FACED with a lot of sickly plants, a good gardener might think about careful nurture. Or he could take a few sturdier ones to the hot-house, and chuck the rest out. The second choice is the one that Russia's rulers seem to favour, in a tough new law on political parties that the Duma, the lower house of parliament, will consider next month.

There is no doubt that Russia's political landscape is rather lopsided. There is, in effect, no opposition to the Kremlin. The Communists are the only party with a big membership, but they lack the brains, and the backbone, to go with their muscle. The liberal parties, Yabloko on the left, and the more free-market Union of Right Forces (SPS in Russian), have plenty of ideas but few supporters; between them, they got 15% in the last general election, in 1999. A pro-Kremlin party, Unity, did well in that poll, taking 23%, but it survives thanks to extensive official patronage. The extreme nationalist, rich, Liberal Democrats, led by Russia's de facto court jester, Vladimir Zhirinovsky, who got 6%, act more as a lightning rod for the authorities than a serious political force.

Under the new law, only registered political parties would be allowed to field candidates in elections. To register, they would have to have branches, at least 100-strong, in 45 of Russia's 89 regions, and 10,000 members. That would be far beyond most of the country's 200-odd parties, the majority of which are tiny outfits, often devoted to promoting bizarre ideas or people, or both.

The other big loser might be the SPS. There is talk that it may merge with Yabloko, which so far sounds unenthusiastic. Although some SPS people are sterling, reform-minded liberals, the party as a whole is tainted by its association with the lawlessness and greed of the Yeltsin era.

The law's backers say it will foster strong political parties and make the Duma more sensible. Cynics fear it will let the Kremlin keep the system tidy—and docile.

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Charlemagne

Joschka Fischer, a forgivable foreign minister

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From The Economist print edition

"PINCH me!" a grinning Joschka Fischer whispered to Otto Schily as the two were being sworn in as, respectively, foreign minister and interior minister in Chancellor Gerhard Schröder's new government of the centre-left in October 1998. Not only for them, but also for most Germans, it was hard to believe that the former 1968 rebel and stone-throwing "street-fighter" should suddenly find himself head of their country's external affairs, while a former communist who had been the lawyer defending one of the infamous Baader-Meinhof terrorists should be made responsible for Germany's internal security.

But then, from a solid, law-abiding German's point of view, many members of the new government, the first to include any of those once stridently anti-conformist Greens, looked pretty louche. For a start, there was the chancellor himself, another 1968 rebel, a professed Marxist, who had led the radical Young Socialists. Indeed, many of the new ministers were thought to harbour some hard-left skeletons in their cupboards. Yet here they all were, in their respectable suits and ties, their revolutionary days long behind them, committed democrats every one. Had not some former Nazis likewise reached the top echelons of past German governments? Besides, it was all so long ago. What did a few youthful antics really matter?

In next to no time, the cocky Mr Fischer, the government's leading Green, who is also vice-chancellor, had become the nation's darling. He seemed to be able to do no wrong in the eyes of his countrymen. Exactly why, no one seemed quite sure. Certainly, he was a good representative of Germany's interests abroad. But that did not seem enough to explain his exceptional popularity. Perhaps it was precisely his chequered past, about which he had never made any mystery (or so he claimed), and his extraordinary self-reinvention, which made him so endearing and respected.

From being the son of (ethnic-German) immigrants from Hungary, a high-school drop-out, a taxi-driver and self-styled street-fighter, to lauded statesman: it all sounded rather romantic. That is, until the publication earlier this month of photographs showing Mr Fischer beating up a policeman during a riot in 1973, followed by his appearance this week as a witness at the murder trial of a fellow street-fighter turned terrorist. Together, these forced Mr Fischer—and the German public—to confront some of the less glorious details of a past on which Mr Fischer has never before sought to dwell.

The fact that the photographs had been dug out of the archives by Bettina Röhl, a slightly dotty freelance journalist with a vendetta against Mr Fischer, did not weaken their impact. Miss Röhl, the 38-year-old daughter of Ulrike Meinhof, co-founder in the early 1970s of the Baader-Meinhof terrorist gang, has never forgiven the left-wing radicals of the time for (as she sees it) turning her mother into a terrorist willing to abandon her child. Miss Röhl has also accused Mr Fischer of attempted murder for his alleged role in a fire-bomb attack on a policeman during a demonstration the day after her mother's reported suicide in jail in 1976. Most left-wing radicals believed she had been murdered.

Mr Fischer denies ever having used, or condoned using, fire-bombs or any other weapons, though he now admits that he had played an "important, maybe central role" in the far-left milieu in Frankfurt in the late 1960s and 1970s. "I didn't see where armed violence could lead except to self-destruction—the destruction of what we stood for," he told the court on January 16th at the trial in Frankfurt of Hans-Joachim Klein, charged with murder for his part in a terrorist attack on OPEC ministers in Vienna in 1975.

Yet the dividing line between the kind of civil disobedience Mr Fischer advocated and the criminal violence into which terrorists like Mr Klein and the Baader-Meinhof group drifted was never as clear-cut as Mr Fischer now says. The *Putzgruppe* (riot squad) he led in the 1970s was one of the most militant among the Frankfurt squatters' groups of *Spontis* (those who believed in "spontaneous action"). Even if Mr Fischer "only" used fists and stones in his frequent clashes with the police, some of his group were often armed with iron bars, lead pipes and catapults. Indeed, the first part of the group's name was the German acronym for Proletarian Union for Terror and Destruction. If convicted, Mr Klein faces life in prison, while the man he claims was once his "role model" will be back hobnobbing with the world's great and good.

Is that fair? Some Germans say that Mr Fischer should "share responsibility" for the crimes of those whose methods he may not have endorsed but whose goals he supported. Others, including Mr Schröder, insist that Mr Fischer has apologised for the "errors of his youth" and has proved his worth as a foreign minister doing a "first-class job". Yet others insist that he is "a disgrace to his country"—and should resign. How could today's young far-right extremists be condemned for thumping immigrants, they ask, when the foreign minister's thumping of a policeman is dismissed as a mere "youthful antic"?

But the Fischer-bashers remain few. Pollsters say that over three-quarters of Germans, including two-thirds of opposition voters, want Mr Fischer to stay. So far he seems to be emerging from the typically anguished national debate with his stature perhaps even enhanced. For he was far from alone. Half a generation, according to rough-and-ready estimates, may have joined in or sympathised with the revolt 30 years ago against what was depicted as an excessively conformist, authoritarian and materialistic society still bearing many of the marks of the Nazi period. Without that rebellion, say those once involved (many of them now respected public figures), Germany would never have confronted its Nazi past or become so open, tolerant and democratic.

"I am what I am," an unbowed Mr Fischer declared this week, "with the good and the bad." For all the four-times-married foreign minister's past sins and present arrogance, most Germans still see him as honest and decent—and for that will forgive him much.

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Nice Portuguese sometimes finish first

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From The Economist print edition

AP

Sampathetic

DISENCHANTMENT with Portugal's current Socialist government under Antonio Guterres could lead to a crisis that might put Jorge Sampaio, who was comfortably re-elected on January 14th to a second five-year term as president, on the spot. The past year has already been trickier than previous ones. Although Mr Guterres's Socialists easily beat the main centre-right opposition party, known (unusually for Europeans) as the Social Democrats, in the last general election, in October 1999, the combined opposition ended up with exactly the same number of seats as Mr Guterres's lot, so he falls short of an outright majority. Hence the need for a delicate presidential touch.

So far, the mild Mr Sampaio has provided it, even when the government came close to defeat over its 2001 budget proposals. But as the economy slows after what some Portuguese now call their "nirvana years" of 1998 and 1999, when it grew by 4% and 3% respectively, rifts may open among the Socialists, legislation could get stickier, Mr Guterres may start to wobble, and Mr Sampaio may find it harder to coax things along. His second term will be a tougher test of his skills than the first. Joaquim Ferreira do Amaral, the beaten presidential candidate backed by the Social Democrats on the right, has already accused Mr Sampaio of being too cosy with the government.

Though Portugal's president is non-executive, he sometimes has to arbitrate on crucial political matters: under what the Portuguese describe as their "semi-presidential" constitution, he can dissolve parliament, call a general election, delay legislation and demand a two-thirds majority in parliament for laws affecting the economy or the electoral system.

In any event, most Portuguese evidently consider Mr Sampaio, now 61, a decent enough fellow. Though always self-effacing in style, he led student protests against a former dictator, Antonio Salazar, in the 1960s, practised law, and ran the Socialist Party from 1989 to 1991 while serving as mayor of Lisbon.

People like his emotional side: he is easily reduced to tears. One weakness that causes much good-natured lampoonery is his tortuous syntax. He may write his swearing-in speech in English (he lived in London as a boy), then translate it back into his native tongue. That method, he has explained with a chuckle in the past, has helped make his words pithier.

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France

Help the poor

Jan 18th 2001 | PARIS
From The Economist print edition

LET English-speakers befuddle their low-paid with awkward references to “negative income taxes”, “earned-income tax credits” (the American idiom) and “working families’ tax credit” (the British variant). Starting in September, some 10m low-paid French workers will have much the same thing—but in easier words. They will get a “*prime pour l’emploi*”, a “job bonus”, adjusted for their household income and the number of their dependants, and available to anyone earning less than 140% of a minimum wage currently set at FFr42.02 ($5.80) an hour, or FFr7,101.38 ($1,019) a month. Heralding the measure this week, the finance minister, Laurent Fabius, said the idea was to provide “real encouragement” for poor people to enter the job market.

Indeed so, and since the bonus will be assessed and paid by the tax authorities, it will presumably encourage a certain shrinking of France’s “black economy” (around 15% of GDP according to some). By the government’s calculations, a single man earning the minimum wage will get an extra FFr1,500 this year, FFr3,000 next year and FFr4,500 in 2003. Assume two minimum-wage-earners with two children, and household income should jump by FFr9,400 in 2003.

However, not everyone is happy with Mr Fabius’s bonus. For example, Elisabeth Guigou, France’s employment minister, would have preferred a straightforward rise in the SMIC, the acronym for the minimum wage. So, too, would the unions. The Communist one, the Confédération Générale du Travail, describes the bonus as “a very negative message to employers. It is tantamount to saying, Don’t bother putting up low salaries, the state will do it for you.” By contrast, a rise in the minimum wage would immediately increase the purchasing power of the poor and so help sustain France’s buoyant consumer demand.

Mr Fabius’s counter-argument is that a rise in the SMIC would spark a round of inflationary wage settlements, lower French competitiveness, and lead to demands by hard-pressed bosses for a reduction in their share of the charges they pay for France’s generous welfare system. After several weeks of governmental tussling, Mr Fabius has won—and the malicious-minded noted that Mrs Guigou departed early from a joint press conference in Mr Fabius’s ministry designed to give the changes a puff.

EPA

Smic Guigou bested by free-market Fabius

Ironically, the dispute might never have happened. The government’s original idea, outlined by Mr Fabius last August, was to distribute the fruits of a healthy economy by lowering income-tax rates across the board. Since that would benefit only the half of French workers who have to pay income-tax, his equivalent bonbon for about 9m low-paid was to lower the rate at which they would have to pay two charges levied on all workers to help pay for health and unemployment insurance. A good idea in theory, and one that would have given the low-paid a few more francs in their pocket than the employment bonus.

The only problem is that just one month ago France’s Constitutional Council, acting on complaints by the

conservative opposition, ruled that the proposed reduction in the social charges, by favouring some taxpayers and not others, would be illegal.

Hence the new solution. Certainly, it means a delay in giving the ill-paid their bonus, but that can always be blamed on the opposition. And quite possibly it will work less efficiently than Mr Fabius promises. How, for example, will the tax authorities be able to verify the information they receive from part-time or casual workers?

But no matter. With a presidential election looming in little more than a year from now, it will help Lionel Jospin, the Socialists' present prime minister and presumed presidential candidate, keep his campaigning pledge to put an ever-increasing number of the unemployed back to work.

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The European Union

Divided we fall?

Jan 18th 2001 | BRUSSELS
From The Economist print edition

The European Union wants to show it can tackle both mad cows and uranium-depleted weapons, but is not quite sure how

WESTERN EUROPE is in the grip of two full-scale health scares. The biggest is over mad-cow disease (BSE). As pan-European testing of all cattle more than 30 months old gets under way, some countries that thought they had no problem are discovering that they were too smug. Italy's first case was discovered this week. The BSE scare has provoked two government resignations in Germany, demonstrations by angry farmers in Spain and France, and plummeting beef sales across the 15 countries of the European Union.

A close second in the scare-stakes is the row over weapons coated with depleted uranium, which was debated this week by the European Parliament. Both NATO and the EU have set up inquiries to find out whether depleted-uranium weapons cause cancer, after suggestions that an unusual incidence of the disease had been found among NATO troops who had served in Kosovo.

There is both opportunity and danger for the EU in all this panic. A pan-European opinion poll published this week showed much disillusionment with both the EU and the single European currency. But the poll also showed that in certain areas, particularly food safety and the environment, there seems to be a genuine pan-European desire for the EU to do more, even in Eurosceptical Britain.

As far as BSE is concerned, it is easy to see the logic behind calls for EU-wide action. Mad-cow disease is clearly no respecter of national boundaries: cattle and cattle-feed are traded (and cows sometimes actually walk) across borders in the Union. So it makes little sense to have health rules that apply in only one country. Indeed, if there ever is a European epidemic of BSE in cattle (and for all the panic, it should be noted that as yet there have been just 14 cases in Germany, compared with nearly 180,000 in Britain), it may turn out to have had its origins in the British decision in 1988 to ban the sale of potentially infected animal-feed at home, but still to let it be exported.

Yet attempts to co-ordinate pan-European action against BSE have been decidedly patchy. Since the first outbreaks in Britain in the late 1980s, the European Commission in Brussels has issued almost 50 directives, aimed at beating off the disease. The latest include a decision (adopted by majority vote) to test all cattle over 30 months old across the EU, and to ban the use of meat in animal-feed for cattle.

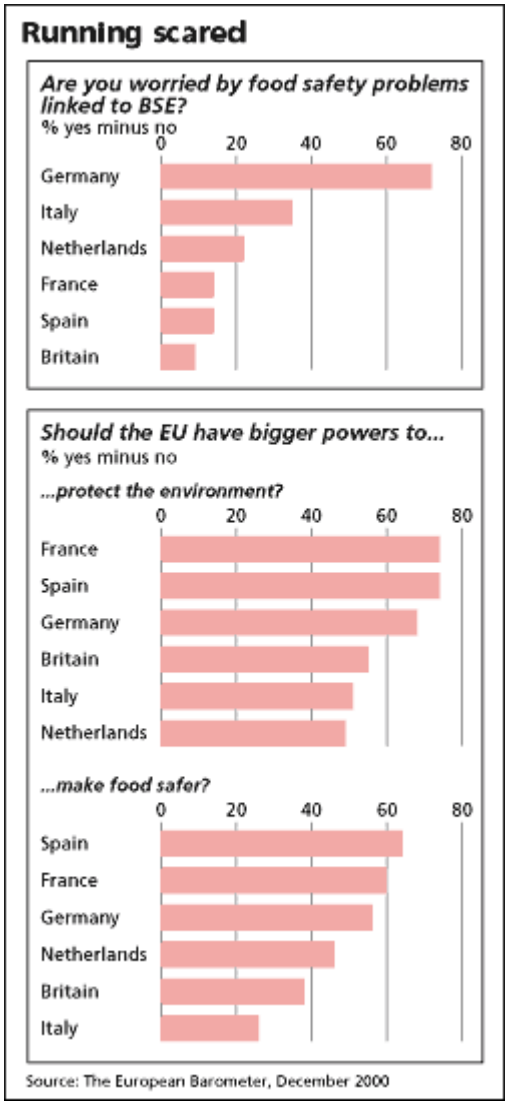
But this attempt to apply EU-wide standards is looking a little ragged. Austria, Finland, Sweden, Denmark and the Netherlands are not taking part in a scheme to compensate farmers who destroy cattle over 30 months old. In Spain and Italy, laboratories are already complaining about the new burden of testing. Meanwhile, some countries continue to take unilateral action against each other's beef exports: Austria, Germany and Italy

have banned French meat, and the French continue to block British beef. European officials say they hope a pan-European food-safety agency will, in time, make things less muddled.

The case for pan-European action against depleted-uranium weapons is less obvious, not least because the evidence that the weapons do cause cancer is disputed. Nonetheless, there is an urge within the EU's bureaucracy to show that the EU can do something. The first reaction of Romano Prodi, the head of the commission, was to call for a ban on such weapons—"even if there is a minimal risk". The European Parliament duly voted for a temporary ban on January 17th.

Yet the EU has to tread carefully. Its relations with NATO, which deployed the weapons in Kosovo, are extremely sensitive at the moment, because of potential rivalry between NATO and the EU's putative new rapid- reaction force. Mr Prodi evidently feels strongly about depleted-uranium weapons, but it is not clear what authority the EU has in the matter.

Commission officials have justified setting up an inquiry into the weapons on the ground that EU employees were working in the Balkans and that they were therefore vulnerable to any health risks. There have even been suggestions that since troops from EU countries are involved, they need to be protected by EU rules on health and safety at work—a bit of a break with tradition for soldiers in the front line, it might be thought.



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Ireland

Watch it, politicians

Jan 18th 2001 | DUBLIN
From The Economist print edition

Does the jailing of a prominent Irish politician for obstructing an inquiry into corruption mean that his colleagues may become more honest?

"WE MUST not make a scarecrow of the law," was the warning given by a bardic Irish judge this week, before sending a prominent politician, Liam Lawlor, to jail for three months for failing to comply with a court order and for contempt of court. His reminder, in passing sentence, that there were "no untouchables" who were above the law has sent shivers through potential witnesses who might be called before one of the two tribunals currently investigating political corruption in Ireland.

AP

Ahern keeps smiling

Mr Lawlor, who resigned from the governing Fianna Fail party last June after an internal inquiry into payments to politicians, had kept his seat in parliament as an independent while continuing to back Ireland's ruling minority coalition led by Bertie Ahern. It is ironical that Mr Lawlor had helped lay down the terms of reference for the tribunal looking into hanky-panky over development planning in Dublin; it is for obstructing that tribunal in its work that Mr Lawlor has himself come unstuck.

In October, when called to give evidence before it, he was reluctant to appear. Last month, when forced to do so, he failed to satisfy the tribunal about how he had earned over $3m since 1983. He treated Fergus Flood, the tribunal's judge, with patent disdain. And he defied court rulings that he should produce financial documents.

The Flood tribunal was set up to examine land sales in Dublin, where local councillors' eagerness to rezone land for building houses or industrial units had raised eyebrows. Judge Flood had been given his brief in 1997, when the foreign minister of the day, Ray Burke, had resigned after being accused of pocketing cash in 1989 then worth $114,000—"donations", it was said, from builders. Mr Burke eventually admitted he had accepted some $42,000.

The sentence given to Mr Lawlor may mark a turning-point. For the first time, a court has buttressed one of the anti-corruption tribunals to the extent of imprisoning an unco-operative witness. People like Mr Burke had never before been taken to court. Moreover, the decision to put Mr Lawlor behind bars, albeit briefly, comes just when the tribunal is again putting the issue of payments to politicians under its spotlight.

In particular, it is investigating allegations made by an Irish property developer based in London, Tom Gilmartin, who says he was thwarted in a bid to put up Ireland's largest shopping mall in Dublin a decade ago—because he refused to give bribes. Mr Gilmartin says that his forthcoming evidence could sink the government.

A year ago, when he made such claims, they seemed exaggerated. But they have steadily gained weight. First, Frank Dunlop, a political lobbyist and former government press secretary, told the tribunal that he had paid many Dublin politicians, including Mr Lawlor, for their votes when certain planning matters were debated. Then Mr Gilmartin told the tribunal that in 1989 he had handed a cheque worth some $71,000 to Padraig Flynn, a Fianna Fail bigwig who was later to become the European Union's commissioner for social affairs; however, officials of the party, which was supposed to be the beneficiary, have denied receiving the money. Last year, Mr Ahern notably failed to renominate Mr Flynn to his job in Brussels.

As Judge Flood's tribunal gains momentum, the other anti-corruption tribunal at present in action is

winding down. Under the aegis of Judge Michael Moriarty, it has been mainly looking into payments made between 1979 and 1992 to Charles Haughey, who was *Taoiseach* (prime minister, pronounced, roughly, “tea-shock”) for most of that time. It has established that Mr Haughey took money worth some $10m from private sources during his tenure as party leader and head of government, and failed to pay tax on any of it.

Mr Haughey, now 75, is suffering from prostate cancer. His evidence is being taken in a private room in Dublin Castle, where the tribunal hitherto sat in public. The transcripts may be published, but it could well prove impossible to nail Mr Haughey for specific bribes given or taken. Though he has already been humiliated and shown to have been a rogue, it is thought unlikely that he will ever face a criminal charge in court.

But two big questions still linger. First, will the tribunals frighten or shame powerful politicians into becoming more upright? Second, will the flow of revelations prove so embarrassing that the government, as Mr Gilmartin has predicted, will fall? Mr Ahern, who was once a protégé of Mr Haughey’s, has proven remarkably resilient over the years. Not for nothing is one of his nicknames “the Teflon *Taoiseach*”. No one thinks he is in politics for personal gain. Nonetheless, his coalition is looking edgy.

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Selecting for the best

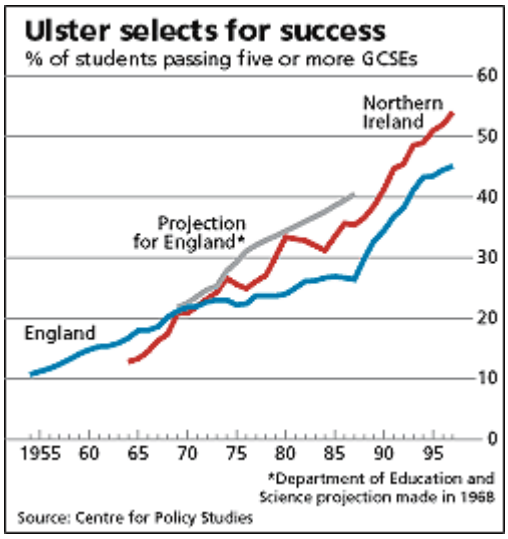
Jan 18th 2001 | BELFAST
From The Economist print edition

Northern Ireland's selective education system, which shows up the comprehensive system in the rest of the United Kingdom, is under threat

THEY take education very seriously in Northern Ireland, and nowhere more so than at the Methodist College Belfast, known locally as "Methody". Standing opposite the city's other great citadel of learning, Queen's University, Methody was founded in 1868 and currently educates 1,830 girls and boys. The headmaster, Wilfred Mulryne, is immensely proud of the school's academic record. Amongst its alumni, the school can count the Nobel prize-winning physicist Ernest Walton. Methody's success, argues Mr Mulryne, is a testament to the efficacy of the selective system of education that Ulster adopted in 1947.

While Britain started dismantling its selective system in the 1960s, Northern Ireland retained it. Ulster still has a "Transfer Test", the equivalent of the English 11+ exam. In Ulster, there are 72 grammar schools out of 238 secondary schools, and no posh independent schools at all. In England and Wales, by contrast, there are only 164 state grammar schools left out of 3,714 secondary schools.

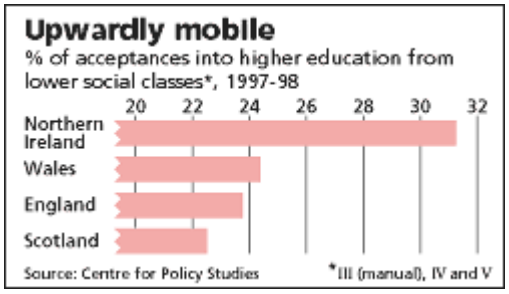
Exam performances in Britain almost levelled off during the 1970s and 1980s, rising again in the 1990s. The performance of Ulster's schools improved steadily through the whole period (see chart). According to John Marks, an education researcher, 14-year-olds in Ulster are 18 months ahead of pupils in England in both English and mathematics. At 16, GCSE results are about 10% better than in England, and 12% better at A-level.



Ulster's education system is more socially inclusive, as well as more successful, than that in the rest of the United Kingdom. A much higher proportion of pupils from lower social classes go on to university in Northern Ireland than in England (see chart below). And the selective system does not seem to disadvantage those at the bottom of the class. Only 3.5% of pupils in Northern Ireland leave school with no qualifications, compared with 6% in England.

Mr Mulryne, and those who think like him, maintain that selection is largely responsible for these impressive results. But across the city from Methody, in the parliament building at Stormont, Martin McGuinness has other ideas.

Sinn Fein's deputy leader in the new devolved Northern Ireland Assembly is minister for education. He has actually been round Methody—unthinkable a few years ago—but he was clearly underwhelmed by what he saw, for he remains a leading opponent of selection.



Mr McGuinness argues that the present system breeds inequality and produces a long tail of educational under-achievement. Each year, he says, 18,000 pupils do the dreaded transfer test. Two-thirds of them fail it and go to secondary school, as he did himself. "Equality is important. Modern societies frown on any aspect that treats anyone as a second-class citizen."

Mr McGuinness has already alarmed those whose priority is high standards in schools by last week ending the publication of school performance league tables, apparently without even consulting the assembly's education committee. Many see this as the first sign that just as England has begun to take schools' standards seriously, Ulster is slipping into reverse.

Because selection is perceived as disadvantaging the poor, and Catholics are poorer than Protestants, most Catholic politicians want to change the system. But the issue does not divide neatly along sectarian lines. A minority of the Catholic SDLP wants to retain selection; and although, on the Protestant side, David Trimble's Ulster Unionist Party is for selection, the Democratic Unionist Party is against. The Catholic grammar schools are as keen to retain selection as the Protestant grammar schools. Neither community wants to see integration forced on existing schools.

An independent review body, set up last September, and due to report in May, is collecting views from all interested parties on the future arrangements for secondary education in Ulster. It is partly an attempt to de-politicise a deeply political issue, but it could recommend to the minister that the principle of selection should be abandoned.

Such a conclusion would give Mr McGuinness plenty of ammunition if he were to try and steer the necessary legislation through the assembly. Proponents of selection are worried. They fear that the coming changes may undermine Northern Ireland's academic rise. Furthermore, they argue that the abolition of grammar schools would lead to more, not less, social division, because the increasingly prosperous middle-classes would just opt out of the state system altogether, and send their children to private schools—as they do in England.

The review body's work so far shows that public anger is focused on the transfer tests, rather than on the principle of selection in general. Even the supporters of selection concede that these tests will have to go. Taken in two hours, they are perceived to be biased towards the middle classes who fork out £15 ($22) an hour for their children to be coached for them. In their place, Mr Mulryne wants some form of continual assessment in the last years of primary school, which would be fairer and less traumatic for the children, and especially the parents.

There are other changes which would command general support. Most people agree that Ulster needs better technical and vocational training for the over-14s. Mr McGuinness is keen to channel money to parents who want to start schools that bring Protestant and Catholic children together. Everybody thinks that is a fine idea. But if he tries to get rid of selection, he will have a big fight on his hands.

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About sponsorship

Animal rights

Testing times

Jan 18th 2001
From The Economist print edition

Protests against testing drugs on animals threaten to deter investment in Britain's pharmaceutical industry

"WELCOME to Huntingdon Life Sciences. Welcome to hell," is the ominous message greeting visitors to one website opposed to the use of animals in medical research. Workers at Huntingdon Life Sciences (HLS), a British firm specialising in the testing of pharmaceutical and chemical compounds in animals, are inclined to agree—not for their experimental subjects, but for themselves. In the past year, 11 cars belonging to employees have been fire-bombed, a senior manager has been seriously assaulted and countless threatening letters and intimidating phone calls have been received from animal-rights activists.

Among the most visible and effective groups hunting the firm is Stop Huntingdon Animal Cruelty (SHAC), which has moved from daily protests outside company facilities to targeting the financial institutions and pharmaceutical companies which keep HLS in business. SHAC's well-organised campaign has applied enough pressure to persuade West LB Panmure, the company's broker, to stop acting for it. Phillips & Drew, a fund manager, and two banks, HSBC and Citibank, have dumped shares. The company has been delisted in New York, and its London share price is a fraction of what it was when the protests started four years ago. A £22.6m ($33.2m) loan from Royal Bank of Scotland (RBS) and two American banks is due to be repaid on January 19th. The RBS, under seige by SHAC members, is unwilling to reschedule but on January 18th, HLS announced that it was talking to interested parties about a cash injection.

HLS's rival drug testers, such as Covance, are also in the firing line and five animal breeders, who provide them with their raw material, have already gone under. Another victory for the animal-rights protestors will fuel further attacks.

Britain's pharmaceutical and biotechnology companies are rattled. The national passion for small furry things, which erupts into violent protest every few years, is making Britain, for all its strong science and healthy investment, a less attractive place for global drug firms to set up shop.

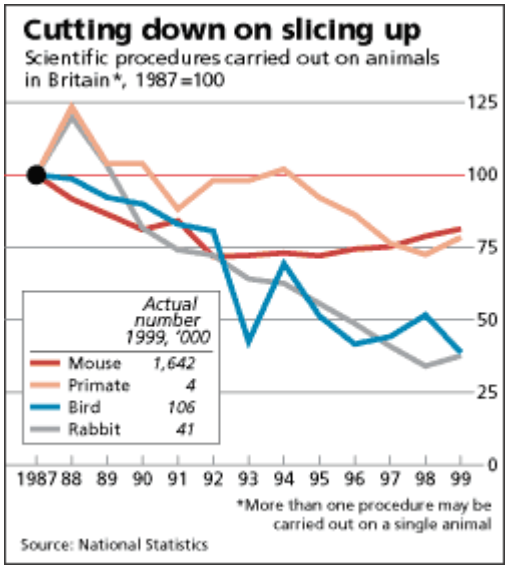
In its election manifesto four years ago, the government pledged to enforce stricter control of animal research and has largely delivered on its promise. Britain now has one of the most rigorous systems governing animal experimentation anywhere in Europe. Over the past decade, there has been considerable progress in reducing, replacing or refining such work so that fewer nasty things are done to animals (see chart). But substitutes, such as test-tube or computer testing methods, are far from perfect, and new drugs still need to be tried out on animals before being let loose in clinical trials on patients.

While industry officials accept the need for tight regulation of this controversial area, they complain that the complexity of the applications procedure means that animal-testing can take up to twice as long to gain approval as in Germany. Delays in testing cut into the lifetime of a drug's patent and thus into revenues.

All this puts the government in an awkward position over science yet again. As it found during the recent argument over genetically-modified foods, balancing public anxiety about technology with the interests of a profitable industry is no easy task. Public opinion generally supports the use of animals in medical research: a MORI poll published last spring showed that over three-fifths of Britons are willing to stomach their objections to animal testing if there is

no other way for important work to be done.

Satisfying pharmaceutical companies, which produce more than £11 billion-worth of drugs a year, is a tougher task. Lord Sainsbury, the science minister, has already had a word with the Royal Bank of Scotland to encourage it to keep HLS afloat. On January 18th, the Home Office indicated that it intends to try to extend labour laws aimed at preventing trade unionists from intimidating people in their homes to cover animal-rights activists. And it is giving Cambridgeshire Police an extra £1m to help them deal with the protests. But balancing the drug companies' demands with the voters' passions is getting harder.



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Missiles over the moors

Jan 18th 2001 | GOATHLAND
From The Economist print edition

George Bush may have to adjust his strategy if he wants the British to participate in the National Missile Defence system

THE farmers, inn-keepers and retired seamen who lead quiet, agreeable lives in this wild stretch of north-east Yorkshire are accustomed to the attention of outsiders—hill-walkers, steam-railway buffs, even television serial-makers—and they have clear ideas about which ones they prefer. Among the 500 residents of Goathland, for example, visitors get bad marks if they feed sandwiches to the black-faced sheep which stroll confidently around the centre of the village; and glamorous Hollywood directors have upset the parish council by using noisy generators or parking obtrusively. But there is little sense, as yet, among local people of the geopolitical storm which may soon break over their heads—if, as seems likely, an American-built radar station, just a few miles away, becomes the object of a furious transatlantic debate.

The focus of discord is Fylingdales, an early-warning facility shared by the British and American military establishments, whose pyramid-like structure looms over the misty Yorkshire landscape, but impinges rarely on the daily lives of most people. “We’ve never had a wrong word with them since they came here 40 years ago,” says Michael Atkinson, a sheep-farmer whose land abuts the Fylingdales base, and who has occasionally relied on its help to track down the dogs worrying his flock.

The base has deadlier quarry to seek out than stray hounds. It is part of a network of radar bases (others are in Alaska and Greenland) designed to look out for missiles hurtling from the Soviet Union towards America. In the macabre scenarios of cold-war planning, the detection of a rocket by Fylingdales might have been the first step in a nuclear exchange.

If President George Bush goes ahead with an ambitious plan to intercept enemy missiles in mid-flight—a concept which he supports much more enthusiastically than did his predecessor—then the Yorkshire base will become even more important. Under a national missile defence (NMD) project drawn up by President Bill Clinton, but not given a definitive green light, the Yorkshire facility would be transformed into a powerful X-band radar station, able to track enemy missiles with great accuracy and guide interceptors towards them. It is assumed that the new Bush administration will devise a similar, but even more ambitious, plan.

One Yorkshireman, at least, has sensed that President Bush’s missile-defence ideas have the potential to become a political bombshell for Britain, the European Union and the Atlantic alliance as a whole. In a move that could turn out either to be statesmanlike or suicidal, William Hague has said that instead of waiting for a request from Washington—and hoping it never comes—Britain should take the initiative and offer its early-warning facilities to America as part of a giant system to stop rogue rockets in mid-flight.

Part of the Conservative leader’s calculation was that the Fylingdales issue could divide the government—with the Foreign Office worrying about the furious reaction to any American NMD system from Russia, China and some EU countries; Downing Street and the defence ministry more concerned about staying close to the Americans; and John Prescott, the environment secretary, demanding that he, too, have a say over what happens in one of Yorkshire’s finest national parks.

But to judge by the cautious reaction in Mr Hague’s home patch, there is not much sympathy either for his call for Britain in general (and Fylingdales in particular) to thrust itself into the nuclear front line; or for the dire warnings from some anti-nuclear campaigners that North Yorkshire could become highly

vulnerable to terrorists or hostile powers if it becomes part of an anti-missile system. In any case, Yorkshire people tend to be more concerned about the here-and-now than about Armageddon.

“In the event of hostilities, we would be a target, and we’re a bit too close for comfort,” says Reg Pierson, who runs one of Goathland’s oldest farms; but he quickly adds that abysmal prices for wool and cattle seem a more acute threat to the village’s welfare.

In the adjacent borough of Whitby and Scarborough—where the Conservatives, under the no-nonsense leadership of Eileen Bosomworth, are the biggest party—councillors say Fylingdales (which used to rely heavily on local labour for ancillary work, but has cut back in recent years) is more of an economic, or even an environmental issue than a strategic one. A few billion dollars of construction work could only be welcome at a time when fishing fleets are shrinking and the steel business is declining.

The Marquess of Normanby, an important local landowner, has little patience with “not-in-my-backyard” opposition to the upgrading of the American base. “If you accept that the country has to be defended, then you have to make some provision for that defence,” he insists.

But which country? So far, most American proposals for an NMD system have provided only for the protection of the United States—while British supporters of the concept, like Mr Hague and his mentor Lady Thatcher, have spoken wistfully of a “global defence system” to which Fylingdales would be a proud contributor. To have any hope of selling the concept, the Bush administration may have to make it clearer which other countries, if any, could snuggle under the anti-missile shield.

Back in Goathland, people are used to starring as unwitting extras in television serials; but they are unlikely to be enthusiastic participants in a real-life Star Wars II unless the Americans—and their British friends—can convince them that the proposed missile shield will bring more security than danger to their community and their country.

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National Health Service

No winter crisis shock

Jan 18th 2001
From The Economist print edition

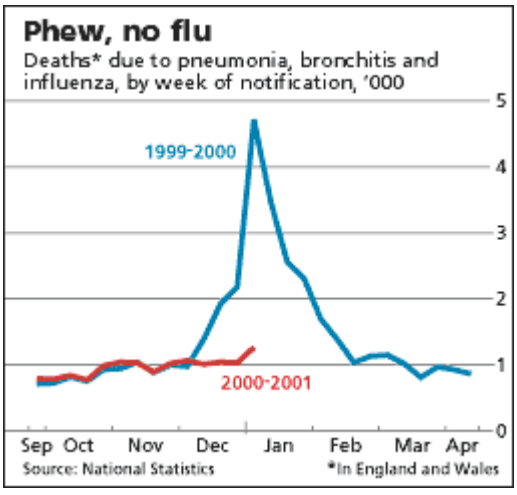
The government has got off lightly this winter, largely thanks to the flu virus's failure to mutate into something new and nasty

WINTER is usually the season for hand-wringing over the National Health Service. Last winter produced a bumper crop of anecdotes about cancelled operations and patients abandoned on trolleys. A repeat of that nastiness could have induced the government to rethink its plans for an early general election. But like those British summers that can seem to come and go in a single afternoon, this winter's NHS season has thus far passed almost unnoticed.

Almost, because it emerged last week that at one hospital several corpses had temporarily been stored in an unrefrigerated chapel. Alan Milburn, the health secretary, snapped angrily that this embarrassment had been caused by incompetent managers, rather than a lack of resources; the hospital's chief executive has duly fallen on his sword. Despite this blip, and unconvincing Tory attempts to draw broader conclusions from it, Mr Milburn and Tony Blair must be thanking their lucky stars.

How much credit does the government deserve for avoiding a repeat of last winter's apocalyptic headlines? Frantic planning throughout the year led to the provision of 18% more critical-care beds than were available in hospitals last year. Co-operation between hospitals and social services has been improved, and vaccinations against flu were made available to everyone over 65. Mr Blair took the extra precaution of saying that there were still bound to be problems, as indeed there have been: some hospitals have cancelled operations, and there have been a few of the infamous trolley waits, though not nearly so many as last year. Alan Randall, chief executive of Eastbourne Hospitals NHS Trust, which was last year obliged to employ a refrigerated trailer as a temporary morgue, says that this winter is set fair to be the best for at least five years.

But the government cannot take much of the credit. The main reason is that there is not much illness around. Far fewer people are going to the doctor with the flu and related illnesses this year than went last year. There are also far fewer (mainly old) people dying due to respiratory illnesses (see graph). According to the Public Health Laboratory Service, the low incidence of flu cannot reasonably be attributed to the vaccination programme, which reached only a minority of the population. The government is just lucky that the virus did not mutate, as it often does, into a nasty new form.



Another reason to treat claims of a huge improvement sceptically is that last year was not really that bad. Politicians and the media made things seem worse than they were. Sadly, the politics of health care are unsubtle: ministers, and the NHS itself, tend to be judged against totemic targets and by iconic tales of woe.

But political imperatives are not always easy to reconcile. One consequence of the precautions taken is that some non-emergency surgery has been postponed until warmer weather. So the waiting list for hospital treatment will have lengthened. Since the list has already been cut by more than was promised before the 1997 election, ministers will be happy to trade a small rise for a quiet winter. Of course the flu could yet strike harder: the latest figures do indicate a slight increase in activity. Unusually for politicians, Mr Milburn will be hoping that his profile remains low for a few more weeks.

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Bagehot

Plato, Parliament and the British fox

Jan 18th 2001
From The Economist print edition

"WHEN names, definitions, sights and other sense-impressions are rubbed together and tested amicably by men employing question and answer with no malicious rivalry, suddenly there shines forth understanding." Britain's debate on fox-hunting has fallen short of this Platonic ideal. The debate has been more malicious than amicable; and at the end of it—though it has not quite ended yet—neither side appears to understand the other better than it did at the beginning. All the same, contrary to the defeated yelps of some of hunting's shriller advocates, there was nothing the least bit undemocratic about the House of Commons' vote this week, by 387 to 174, to ban hunting with dogs. In a way, the decision was four times more democratic than usual.

First, the Labour Party could not have made its intentions on this matter any plainer than it did in the manifesto on which it was elected in 1997, which said that the party strongly opposed "the so-called sport" of hunting with hounds and intended to let MPs vote on whether to ban it. Second, if the arguments on both sides have not been tested as amicably as Plato might have wished, they have at least been tested thoroughly. Hunting's supporters and opponents have marshalled the expert opinions and lurid photographs convenient to their respective arguments, and plastered them over newspapers and billboards. Jack Straw, the home secretary, went to the trouble of asking for an impartial investigation of the facts from Lord Burns, an eminent former civil servant, who cogitated mightily and reached the memorable conclusion that the killing of a fox by hounds "seriously compromises the welfare of the fox". Third, when at last the Commons voted this week, the vote was "free", as the government had promised it would be. MPs were allowed to vote in accordance with their individual consciences (or at least their individual calculations) instead of having to stick to their parties' lines. Fourth, MPs were not presented with a simple yes or no alternative, as they usually are. They could vote either for a total ban, or for regulation of the sport, or for self-regulation, or against all of the above. Mr Straw himself voted to regulate hunting, not to prohibit it. His Tory shadow, Ann Widdecombe, consulted a furry corner of her steely heart and favoured a ban.

In short, far from being undemocratic, this week saw a perfect demonstration of democracy. That is the whole trouble. The vote demonstrated perfectly, as Lord Burns would no doubt put it, that unless political leaders are careful, democracy seriously compromises the liberty of minorities.

Some of the people who feel passionately about the welfare of the fox simply refuse to acknowledge that to ban foxhunting is to curtail a liberty. But liberty is the pre-eminent issue. Although only a minority of people hunt with dogs in Britain, it is a sizeable minority as well as a vocal one. Of nearly a quarter of a million people who hunt four-legged creatures, some 180,000 are principally involved in hunting foxes and deer. Of these, many care a good deal about what the Labour Party dismisses as their "so-called sport". A high proportion of the 80,000 or so people who attended a "Countryside Rally" in London in July 1997 did so in order to defend hunting, and an even bigger turnout is hoped for in a second rally planned for next March. Needless to say, the defenders of hunting exaggerate the impact that a ban would have on rural jobs and the rural way of life. But exaggeration is not the same thing as invention. Lord Burns concluded in his report that thousands of people—at least 6,000 but probably more—would indeed lose their jobs if hunting were banned. He accepted that in some areas hunting might still be the best way of keeping the fox population under control, and that it played a small but dwindling part in conserving the countryside. He also found that in some communities hunting remained a "significant" cohesive force. Whatever city types think, foxhunting is not just the sadistic pastime of the rich. It is an ancient sport

that matters to many people. If politicians make it illegal, they need a good reason.

To most MPs, the reason is self-evident: fox-hunting, they say, is cruel. Some of those who call it cruel seem to care most about the physical welfare of the fox; others, more bossily, about the spiritual welfare of the hunter. Either way, they cite precedent. Previous governments have legislated to prevent cruelty to animals. Having banned bear-baiting, why not fox-hunting?

It is a reasonable question. The answer, unless you are an animal-rights fundamentalist, is that the line must be drawn somewhere. Otherwise, the logical sequel to a ban on fox-hunting is a ban on all shooting, fishing, the use of animals in experiments, and the rearing for slaughter of poultry and cattle. Politicians are entitled to move the existing line, but ought at least to aim for some proportionality. In other words, the welfare benefit they confer on the animal ought to be commensurate with the cost they impose on liberty. In this case, it is not. The plain fact is that not even Parliament can make the lot of the fox a happy one. Of the 400,000 or so foxes that die every year, few expire peacefully in bed. About 100,000 are squashed by cars, about 80,000 are shot and 30,000 are snared. Only 22,000 are killed in hunts. And Lord Burns gave warning that although hunting with hounds compromised the welfare of the fox, a ban might compromise it further by causing more of them to be killed by shotguns and snares.

What next? The elected majority must have its way. Tony Blair has already said as much to the half-reformed House of Lords, where the battle now moves, and with which it may now suit him to pick a fight. Some defenders of hunting—and some who oppose hunting but defend liberty—hope that voters will punish Mr Blair for engineering this outcome. That is wishful thinking. Polls suggest that a ban could be popular. It will have been arrived at by impeccable democratic methods. It just happens to be wrong.

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Urban revival

Mersey beats louder

Jan 18th 2001 | LIVERPOOL
From The Economist print edition

IN VICTORIAN times, poor Irish immigrants flooded into Liverpool to work in the city's docks and factories, helping many Liverpudlian businessmen to grow rich. Since then, the city has fallen on hard times. But now the Irish are back. This time they are rich, and are helping to fuel a property boom.

The city centre, much of which has lain derelict for a decade or more, is alive with construction activity. Old warehouses, factories and offices are being converted into smart blocks of flats complete with obligatory swish penthouses. There is no shortage of takers. Paul Bolton, chief executive of the Charlton Group, a north-west building firm, says that of 115 flats still under construction in an old parcels warehouse, 100 have been sold.

And, by Liverpool standards, they are not cheap either. The smallest flats in Mr Bolton's development start at £85,000, but the penthouses cost from £180,000. On the waterfront, prices are higher still. Out of a dismal former council office block, the Beetham Organisation, a local construction firm, produced 45 flats. Most sold for between £150,000 and £350,000, and one penthouse made nearly £500,000.

Developers reckon that about a quarter of these new flats are being bought for investment reasons. Taxes levied in Britain on property-purchasers, at 3% on properties priced between £250,000 and £500,000, are minimal compared with Irish taxes of 15% on similarly priced homes.

John McGlashan, chief executive of the Beetham Organisation, says he knows of one Irishman who is borrowing £30m of mortgage money a year and buying flats in Liverpool by the dozen. Such buyers are pushing up prices. Mr McGlashan sold a flat for £58,000 two years ago which is now on the market at £100,000. Irish corporate money is sniffing around too. The Prem Group, a Dublin-based hotel and apartment company, has recently taken out a three-year lease on 30 Liverpool flats.

To some extent, Liverpool is simply catching up on the current fashion for city-centre living. In Liverpool, the trend was sparked by an influx of students to new central flats built by the city's three universities. Now young professional people are following—city-centre resident numbers (excluding students) have tripled from 3,000 in 1997 to more than 9,000 now.

But it also seems that people with money to invest have begun to be persuaded that Merseyside is moving out of the shadow cast by decades of industrial and political militancy. Two new four-star hotels have opened in the last two years, the first such hotels to be built in the city since 1972, catering for visiting business executives, who previously shunned Liverpool hotels for Chester and Southport, 20 miles away.

Local businesspeople say the disappearance of the local anti-business political culture pre-dated the election in 1999 of a Liberal Democrat administration to Liverpool City Council. But under Mike Storey, the Lib Dem council leader, and David Henshaw, a new chief executive, efficiency and being pro-business have become priorities. "We take 90% of all decisions within five days," Mr Storey boasts.

This new environment appears to be encouraging a commercial revival. Take-up of office space doubled in 2000. Mark McNamee, chief executive of the Princes Dock Development Company, recently managed to secure a £15 per square foot rent for a waterfront office, the first speculative new-build office accommodation in the city for 25 years, he says. This is about 40% below Manchester prices but is a big leap for Liverpool.

There are three question marks over this good news. First, much of the rise in office rents is attributable to public sector organisations such as the Criminal Records Bureau and the Employment Service competing for space. But there are signs of private-sector interest too. Swiss Life, an insurance company,

is moving its offices from Crosby, just outside the Liverpool boundary, to Albert Dock in the centre, to cope with a workforce expansion from 350 to 500 people. Mr McNamee thinks there is enough private activity to justify him starting work on three more waterfront office blocks.

Second, much of the building work has been subsidised by the European Union, which has designated Merseyside one of the poorest parts of Europe. The Ropewalks, for instance, a semi-derelict area between Albert Dock and the Anglican Cathedral, is being regenerated with a £50m subsidy. But again, there are indications that activity may continue without subsidy. One developer, encouraged by the arrival of creative artistic types and internet entrepreneurs in the Ropewalks, has submitted plans to convert a factory into shops, offices and flats. It will not get a subsidy.

Third, the city centre badly needs a big new shopping area. Two rival schemes (a competitive novelty in Liverpool) are slugging it out for the city council's approval. Grosvenor, a big property firm, and Henderson Global Investors, a financial company, announced on January 17th a £600m plan to build shops, cafés and cinemas opposite Albert Dock. The bad news is that the city council, which likes this scheme, cannot approve it because the rival, the Walton Group, has a stake in the site. Barring a deal between the rivals, sorting out the mess will delay progress by months, if not years.

But still, Liverpool seems to be on the up. The city grew wealthy from westwards trade to America in the 19th century and declined in the 20th century as commodities and trade patterns changed. If more Irish wealth can be persuaded to move across the Irish Sea, Liverpool's westerly outlook may yet rescue it.

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Transport

What price emptier roads?

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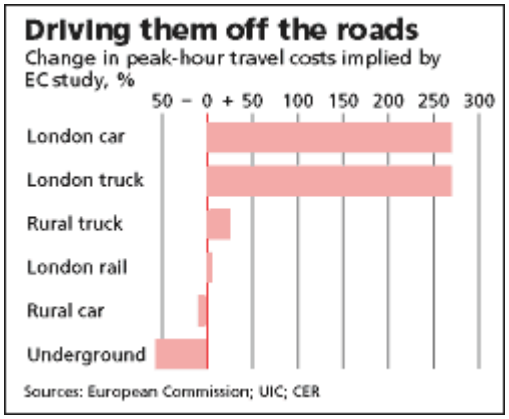
From The Economist print edition

UNTIL recently, the idea of charging for scarce road space was dismissed as political suicide, but some politicians have advocated road-pricing and lived to tell the tale. Ken Livingstone, London's mayor, for instance, plans to introduce road-pricing in the capital within the next two years. Now a new study for the European Commission takes the argument further. Enticingly entitled "Revenues from Efficient Pricing", it argues that current transport taxes should be replaced by charges to reflect the true marginal costs of different forms of transport—not only the additional costs of each journey, but also the costs of pollution, congestion and accidents.

Marginal social-cost pricing, the economic jargon for this form of charging, would produce 50% more revenue than current taxes on fuel and vehicles. It would also recover the full costs of transport infrastructure. The cost burden would shift from rail to road (see chart) because the marginal cost of each additional car journey is greater than that of an additional rail journey. In London, for instance, motorists would have to fork out up to three times as much as they do now for rush hour journeys. Underground fares, by contrast, would fall by more than half.



Mr Livingstone's plans are modest, by comparison. He plans a £5 daily charge for drivers in part of inner London. This will have a modest impact on traffic. Rana Roy, author of the EC study, predicts that if the scheme were implemented, by 2005 road journeys in London would decline by 30% while rail journeys would increase by 45%.

The technology is not yet in place to introduce an efficient road-pricing system, but it is getting there. Microwave radio systems, allowing cars to communicate with roadside charging units, are already in use in several European countries. Bus and lorry operators are using American global positioning satellites to track their vehicles on a minute-to-minute basis. With digitised maps, such systems could calculate which vehicles used what roads when, and charge them accordingly. The capital cost would be around £350 per vehicle; the operating cost, according to the EC, would be less than 3% of revenues.

Heavy goods vehicles are likely to be the first to use this technology. At present, European lorries have to purchase a licence to travel on most European motorways. An electronic charging system is emerging as its natural successor.

The political hurdles to introducing an efficient road-pricing system are greater than the technological ones. Although there are big social gains implicit in this scheme (less congestion, less pollution and fewer accidents) and big winners (public-transport users, mostly), there are also big losers. And as the government learned last summer, the motorists' lobby is a formidable creature.

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No contest

Jan 18th 2001
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THE prospect of a dull general-election campaign, featuring a small ideological argument about tax and a great deal of mud-slinging on the euro, was until this week enlivened by the promise of Britain's first American-style television debate between the leaders of the main political parties. Alas, that entertainment has now been cancelled; the prime minister's official spokesman made it clear that Tony Blair wasn't going to take part after all.

Some of the reasons Mr Blair has cited for his decision are reasonable. As he says, the British electoral system is different from the American one, in that voters are at least nominally supposed to select a local MP rather than the prime minister. But since Mr Blair is widely regarded as the most presidential prime minister in history, he is not best placed to make this argument. It is also true that Mr Blair and his Conservative adversary, William Hague, already face each other every week during prime minister's questions—though the baying mob of MPs which surrounds them hardly allows for a mature exchange. Television debates may encourage voters' tendencies to decide on the basis of image, rather than on the substance of policy—though, again, New Labour has not hitherto shown a particular distaste for image-making.

PA

Hague's got the wit...

But these, and the other less cogent excuses Labour has proffered, are less than convincing because Mr Blair had already accepted the idea of a debate in principle. Belatedly, he has been converted to the well-established precedent whereby the likely winner of an election avoids taking the sort of risk involved in a television punch-up. John Major refused to debate with Neil Kinnock in 1992, but faced with the near certainty of defeat, he was much keener in 1997. What made Mr Blair change his mind?

One theory is that the prime minister never really intended to stick his neck out at all: he was gambling that wrangling among the minor parties about their own inclusion would mean that the idea would be dropped and his bluff would never be called. Another possible explanation is that Downing Street has been frightened off by the recent presidential debates in America. Mr Blair's advisers may have calculated that, just as George Bush exceeded low expectations about his performance, Mr Hague, who is languishing in the polls, could end up benefiting from a TV showdown just by showing up.

PA

...but Blair's got the gravitas

But the comparison is misplaced. William Hague is not the electoral underdog because he has poor debating skills. On the contrary, his performances in the House of Commons are impressive, but his slick, comic, often glib-sounding, delivery is one of the reasons why many voters don't like him. Mr Blair's wit is much less ready, but he is good at projecting the sort of gravitas which voters expect from a prime minister on television. Quite possibly he needn't have been so worried; but then he has never been much of a risk-taker.

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Killer facts

Jan 18th 2001
From The Economist print edition

PATIENTS once meekly accepted the advice of their family doctor. But these days, many of them visit the surgery armed with information about their ailments, which has been plucked resourcefully from the Internet. Last week, those keen to influence their medical fates received more ammunition: a study was published which compares mortality rates at hospital trusts across the country.

The study, by Sir Brian Jarman of Imperial College, indicates a wide variation in death rates, even allowing for the different types of patients and conditions which individual hospitals treat. In the hospital with the highest level of mortality, 17 people die for every ten in the one with the lowest rate. The study indicates a north-south mortality divide, with fewer deaths in southern hospitals, and a rough and unsurprising correlation between mortality and the number of doctors, both inside and outside hospitals.

Research like Sir Brian's answers a growing demand for knowledge, and helps to make the National Health Service more transparent. The government has itself promised to introduce annual report cards for hospitals, and clear indicators of which hospitals are best, and which are not. That will provide patients with the sort of information which would be useful to them if they could act on it. The trouble is that many of them will find it difficult to, partly because some have only one local hospital.

Ministers hope that failing hospitals will be chastised into improvement by the publication of performance indicators, and that the question of choice will be made redundant by universal excellence. Peter Lilley, a former cabinet minister and author of a recent pamphlet about patient choice, points to evidence from New York, which suggests that merely publishing data can raise standards. That may happen in Britain, but in the short term, some patients face the prospect of being treated in hospitals that are officially sub-standard.

But the fundamental question the research raises is whether, given enough information and the right policies, consumers should be able to treat health-care as if it were just another product in the market place. The publication of more and accurate performance data is desirable, but most laymen will still not be equipped to decide, without the advice of their doctor, where they should be treated and by whom. Patients may always need some degree of old-fashioned paternalism.

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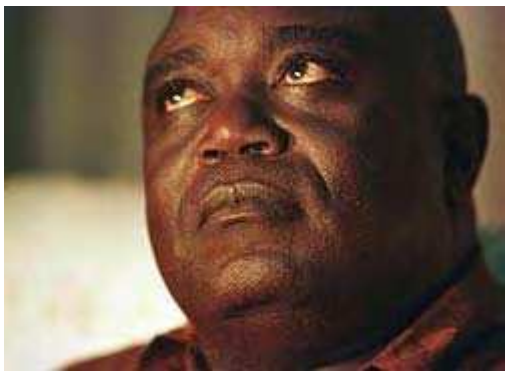
Congo without Kabila

Jan 18th 2001 | NAIROBI
From The Economist print edition

Few will mourn Laurent Kabila. But his assassination leaves war-wrecked Congo in a state of dangerous uncertainty

AP



LAURENT KABILA had few friends. Many people, including some of his supposed allies, wanted Congo's ruler out of the way, and a coup was not unexpected. Instead, one of his own soldiers is said to have shot him on January 16th, in Kinshasa, Congo's capital. For a couple of days the ultra-cautious Congolese authorities held back from admitting his death, merely saying that he had been wounded. Other reports said he had been flown to Zimbabwe for medical treatment, but had died there. Eventually, Congo's Ministry of Information, gathering its courage, announced that his body would return to Kinshasa on January 21st, and would be buried two days later.

As rumour dribbled out in Kinshasa, there was no outpouring of grief or joy for the departure of a leader the Congolese had welcomed so enthusiastically in 1997. He and his rebel movement, supported by Rwanda and Uganda, had marched across the country and chased out Mobutu Sese Seko, who had misruled the country for 30 years. Mr Kabila was welcomed because he was not Mobutu. It seemed possible that Congo would no longer be the personal estate of one man, and become at last a more conventional country.

The Congolese were disappointed. Though Mr Kabila made one or two improvements—for a while border officials stopped treating foreign visitors as piranhas treat meat—he imitated Mobutu, without the latter's finesse. He brought in as ministers an odd assortment of incompetent relations and hangers-on. An old Maoist, he feared that the West wanted to recolonise Congo and steal its vast mineral wealth. He spurned the World Bank and the IMF. When mining companies and other investors rushed to Kinshasa to seek deals, he tried to play them off against each other. He broke agreements on a whim, relying on private bargains and connections. Offers of aid and investment were withdrawn; the economy languished.

Politically, Mr Kabila was a petty tyrant who could not work with others. He quickly turned against his allies, Uganda and Rwanda, and in 1998 they launched a new rebellion against him. This was stalled when Zimbabwe, Angola and Namibia stepped in to support him. A peace agreement was signed in Lusaka in 1999, but never implemented. The war continued at a low level, with everyone breaking the Lusaka deal.

The neighbouring countries all had their own separate reasons for intervening in the war. Rwanda said it was there to protect its borders from invasion by soldiers and militiamen of the former Rwandan regime that had carried out the 1994 genocide. Angola wanted to stop Congo being used as a rear base for its own rebels. Zimbabwe said it was there on principle to counteract the invasion by Uganda and Rwanda. But all the intruders were drawn by Congo's wealth.

Intervening in Congo cost the meddlers a lot of money. But a number of individuals, often close to the seat of government, became very rich. Rulers had to weigh the cost to their reputations and their treasuries, and the impossibility of victory, against personal profit and pride. No one wanted to be seen to back down. Neighbouring governments did not want to go on fighting each other, but none of them wanted to withdraw without a political solution that served their interests.

Increasingly, Mr Kabila's duplicity and intransigence were seen by all as the chief obstacle to any such agreement. He infuriated his allies with his arbitrary decisions and devious ways. He refused to countenance either African peace monitors or UN observers in the country. He rebuffed Ketumile Masire, a former president of Botswana, who had been chosen to supervise political talks between government

and rebels. His incompetence was further shown up last year when he failed to exploit the break-up of the rebel movement into three factions. His old-fashioned attempts to control the economy made him deeply unpopular in the capital; indeed, he had little support outside his home region in Congo's south-east.

Angola, a power broker in the region and one of Mr Kabila's two main allies, grew exasperated with him. Senior Angolan officials recently admitted they would like to be rid of him, but could not find a replacement. Angola will certainly want a say in the new regime. His remaining friend was Robert Mugabe, Zimbabwe's president, who had sent 12,000 troops to defend him, and who may have been involved, at the very end, in trying to save his life. But the war is deeply unpopular in Zimbabwe, where the economy collapses by the day.

Mr Kabila's sudden departure leaves huge uncertainty. None of the people around him appears capable of running the country. The government is said to have met in special session and put his eldest son, Major-General Joseph Kabila, in charge. The army is demoralised: regular officers have been purged and three were arrested last week. But, at least in the short term, a new military ruler looks to be the likely outcome.

The tragedy of Congo, the key to political stability and economic development in central Africa, is that its rulers since independence in 1960 have been so concerned to hold it together that they have paid no attention to developing it either politically or economically. Congo is so rich, and yet so weak, that outsiders have always been tempted to interfere. The Congolese have never been allowed to come together, agree on a constitution or elect a government, yet they remain stubbornly nationalistic in a state that disappeared in all but name decades ago.

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Nigeria

Delta rights

Jan 18th 2001 | LAGOS
From The Economist print edition

INTEREST is picking up in the human-rights hearings that have been going on in Nigeria since October, first in Lagos, then in Abuja and now in Port Harcourt, the main city in the southern oil-producing region. The highlight comes on January 19th, and throughout the following week, when the commission examines the role of the oil company, Royal Dutch/Shell, and its relations with the minority-rights group MOSOP, founded by the late Ken Saro-Wiwa.

Saro-Wiwa, a writer who campaigned for his minority Ogoni people, was executed in 1995 on the orders of the military ruler of the day, Sani Abacha, after being found guilty of the murder of four Ogoni chiefs. The execution, after a trial that John Major, Britain's prime minister at the time, said was trumped up, resulted in Nigeria being ostracised and opprobrium being heaped on Shell, the main multinational.

A shrewd manipulator of international opinion, Saro-Wiwa had blamed the oil giant for many of the woes of the Ogoni people. Environmental pollution caused by Shell's oil drilling in the Ogoni region of Rivers State had made life intolerable, he said. But Abacha's men cracked down brutally when Saro-Wiwa demanded more control by Ogonis over the exploitation of the oil. When he and eight supporters were hanged, Shell was blamed by many for not doing more to stop the execution. Eventually it pulled out of Ogoniland, though it continued its operations elsewhere in Nigeria.

Since then, however, the problems of Ogoniland, and more widely those of the whole Niger Delta, have scarcely eased. Ethnic and communal violence is widespread: village fights village in disputes often linked to the poverty of the area, but also to its complex social make-up. The Ogoni leaders, and MOSOP itself, are bitterly divided. An attempt last November to hold a symbolic reburial of the remains of Saro-Wiwa and his supporters ended with violence between different Ogoni factions.

Shell itself has promised to attend the hearings. "We see it as a good opportunity to set the facts out, and set the record straight," says a spokesman. The charge is that Shell and the other oil majors—TotalFinaElf, Texaco, Chevron, Mobil and Eni—co-operated with successive military governments, which took billions of dollars in oil revenue while doing nothing to develop the region from which the oil came. Human-rights activists accuse all the foreign operators of colluding in violent crackdowns, and dealing willingly with kleptocratic regimes. Environmentalists say that the companies did not apply the same standards of protection as they would have if they were drilling in, say, the Florida Everglades, rather than the Delta's mangrove swamps.

The determination of the oil companies—Shell in particular—to be seen in a more humane light since Saro-Wiwa's execution has led to some changes for the better. So too has Nigeria's return to civilian rule in 1999. Olusegun Obasanjo, seeking to expand the economy, has set a target of increasing oil output by 50% over the course of his four-year term. He has set up an agency to develop the Delta region. But, shortly after coming to power, the president showed that he would not brook dissent. In November 1999, troops acting on his orders went into a town where 12 policemen had been killed and flattened it, killing many and making hundreds homeless. That, one suspects, was a human-rights incident the commission will not be investigating.

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Iran

To prison

Jan 18th 2001 | TEHRAN
From The Economist print edition

EVER since 1997, when Muhammad Khatami was elected Iran's president, the European Union has tried to avoid criticising the country in a way that might play into the hands of the conservative clerics who oppose the president's efforts to turn it into a nicer place. But the EU's discretion could not survive the verdicts handed down on January 13th, when eight well-known supporters of the president were given shockingly long prison sentences by a hardline judge, mostly for what they had said, or perhaps thought.

AP

Afshari, brave firebrand

The crimes of most of them were committed not in Iran but in Germany, at a conference organised by an affiliate of the Green Party, a junior partner in the government. Making matters even more awkward, one of the convicted, Said Sadr, worked as a translator for the German embassy in Tehran. So it was probably with mixed feelings that Joschka Fischer, who is both foreign minister and a leading figure in the Green Party, summoned Iran's ambassador in Berlin for a dressing down at the weekend. On January 16th, the EU itself deplored the "harsh verdicts".

One of the reasons for Mr Khatami's popularity at home is the way he has gone about improving his country's previously fraught relations with European countries. He was applauded last year, when he became the first Iranian leader to visit Germany and France since the 1979 Islamic revolution. Now, with a presidential election scheduled for June, the conservatives may be trying to sabotage his foreign-policy achievements—although the hardliners railing piously against Mr Fischer's words of protest are indubitably in favour of good relations with Germany, one of Iran's largest trading partners. What they do not like is Mr Khatami reaping the benefits.

It is not the first time that Iran's judicial system has damaged Mr Khatami's friendship with the EU. Last year's conviction of Iranian Jews on flimsy charges of espionage led Britain's foreign minister to drop plans for a visit. On January 15th, Gerhard Schröder, Germany's chancellor, reassured Mr Khatami that he had not abandoned plans to come to Tehran. But the severity of the sentences make it unlikely that Mr Schröder will consent to make Mr Khatami look statesmanlike in the near future, and certainly not before the election.

The EU agrees broadly with the reformists' contention that the trial was a crude put-up job, designed to put some of Mr Khatami's most influential supporters behind bars. No one denies that the Berlin conference, which was supposed to be a platform for Iran-based reformists, degenerated into a rowdy rally by dissident exiles. A woman offended Iran's Islamic proprieties by dancing, and a man stripped to show scars from a torture session. But Iran's (conservative-run) state television whipped up the furore by endlessly broadcasting offending images, while ignoring footage that reflected much better on the Iran-based lot.

The verdicts have a strong political smell to them. Some moderates were let off, but of the 14 defendants who actually attended the conference, the judge found seven guilty of setting up "a group aiming to destroy national security". Two other defendants, Khalil Rostamkhani and Mr Sadr, had little to do with the conference, and neither took part in it. But that did not stop them being sentenced respectively to eight and ten years in jail for handling dissident literature: they are old communists, and the regime loathes old communists.

No one was surprised that Akbar Ganji was sentenced to ten years in prison, and a further five years' internal exile; he has done more than any other journalist to reveal the guilty secrets of senior members

of the regime. And Ali Afshari, who was handed a five-year jail sentence, is a firebrand student leader who has been so bold as to question the infallibility of Iran's supreme leader.

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Gaza

Sowing seeds of destruction

Jan 18th 2001 | KHAN YUNIS
From The Economist print edition

Israel is slicing Gaza into three enclaves. The results could be devastating

WISPY hopes of a last-minute Israeli-Palestinian peace before Bill Clinton ends his presidential term on January 20th seem to have been blasted away by war. On January 13th, two Palestinians were executed by Palestinian firing squads after summary trials for supposedly collaborating with the "enemy" (Israel). The next day a Jewish settler was killed in Gaza. The day after that, Israeli soldiers in the West Bank shot dead the 334th Palestinian victim of the *intifada*. On January 17th, three hooded men killed the head of Palestinian television. Palestinian officials justified the executions and shrugged their shoulders over the settler's death. "We are at war, a war declared by Israel against the Palestinian people," said Freih Abu Medein, the justice minister.

AP

A settler, soldiers and burning Palestinian trees

Few Palestinians would disagree with that description, especially the 1.2m locked into Gaza. After the settler's murder, Israel slapped a total closure on the strip, temporarily sealing off border crossings with Egypt and Israel, and shutting down the Palestinians' only international airport. This was the fifth such blockade in four months and, according to a UN economist, their cumulative impact on the economy has been "akin to a natural disaster or a prolonged civil war".

The statistics bear him out. Since October 8th, when the first total closure was imposed, unemployment in Gaza has soared from 11% to 50% and poverty (calculated at or below $2 of consumption per person a day) from 21% to 32%. The United Nations Relief and Welfare Agency (UNRWA) says there are now 127,000 families, or 85% of the Palestinian refugee population in Gaza, in need of some kind of food assistance.

Gazans are used to being poor. Since the Oslo accords were signed in September 1993, they have also become used to blockades. But Israel's current onslaught against them is unparalleled. Especially punishing this time is the "internal closure", whereby the army slices Gaza into three separate enclaves—north, south and middle—by closing all roads between them.

Students from the south of the strip cannot reach their universities in the north. Medical staff and supplies in the north cannot get to hospitals in the south. To risk breaching this internal siege on foot is to take your life in your hands. On January 7th, a man tried to go home across a field next to Israel's Netzarim settlement. He ended up dead from 40 bullets fired from an army observation post. In November, a woman gave birth on a donkey cart because the army would not allow her to go from her village to the hospital in Khan Yunis.

Nor do Palestinians believe this new territorial arrangement is temporary, an exceptional measure imposed because of the new *intifada*, the Palestinians' armed uprising. After the settler's death, his compatriots from the Gush Qatif settlement block in southern Gaza exacted revenge by destroying crops, irrigation systems and houses belonging to Palestinians in the Khan Yunis

area. The next day army bulldozers razed the same land of its fruit trees. The settlers now want to erect mobile homes in the area—in effect expanding their settlement—as a suitable “Zionist response” to the killing. It is a pattern of army-settler collusion that has repeated itself throughout the uprising.

According to the Palestinian Centre for Human Rights, the army has swept clean more than 400 hectares (1,000 acres) of Palestinian land in Gaza since the *intifada* started on September 29th, mainly alongside the bypass roads that link the strip’s 16 little Jewish settlements. The army says it has done this to rid the roads of potential ambushes and snipers. A landscape of felled trees, flattened greenhouses and demolished houses attest to this scorched-earth policy. But in widening the roads, and laying new ones, the army is, in effect, turning the settlements into big military zones that “encircle” Palestinian towns and villages.

Take Qarara, a Palestinian village of 16,000 people that sits between Gush Qatif and the minuscule settlement of Kfar Darom in the centre of the strip. Since the first army bulldozers rolled up on November 21st, 20 of its houses have been destroyed, 40 have been damaged and over 5,000 olive and citrus trees have been uprooted. The 100 or so Palestinians displaced from the village, who now live in three separate tented encampments, are unsure whether they will ever get their land and houses back. “Once the Israelis extend their colonies, that’s it,” says one. “They never let you return.”

It is unclear what the army thinks it will achieve by such devastation. Some Palestinians say the purpose is to hit the Palestinian economy so hard that Yasser Arafat will be forced to end the *intifada*. Others say the army is preparing for the day when “peace” is finally abandoned, and it will be obliged to defend Gaza’s 6,000 Jewish settlers from a seething native population. Whatever the motive, Israel is sowing seeds whose harvest will be more hatred and destruction. “The most dangerous thing now is for the *intifada* to become a war of retribution between the Palestinian guerrillas on the one hand and the army and settlers on the other,” says a local Palestinian leader. “Then it will be beyond anyone’s control”.

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Television takes a tumble

Jan 18th 2001 | NEW YORK
From The Economist print edition

The retreat of new-media upstarts has brought no joy in television land

THE Internet was supposed to kill television. Instead it saved it, at least for a while. Last year, as dozens of online start-ups emerged to challenge America's TV networks for viewers, even more of their dot.com brethren were showering the networks with advertising, propelling the industry to record revenues. This was a delicious irony for beleaguered TV executives, especially when excessive spending on traditional advertising spots ended up sinking some of the online pretenders to TV's throne. But the pleasure was fleeting.

As the dot.coms crashed, dragging stockmarkets with them, so, eventually, did television advertising. Last year's Super Bowl marked the high point of the advertising bubble, with 17 Internet companies coughing up as much as $3m for each 30-second spot. This year only three are returning, the price has reportedly fallen by a quarter, and CBS, the network that is showing the game, still had 10% of its time unsold a week before the event. Overall, the $57 billion TV advertising market's growth this year is expected to be the slowest since 1991.

The shockwaves from this are already reverberating through the four-block area of Manhattan in which most of America's TV industry is based. NBC, one of the four big networks, said on January 12th that it planned to slash as many as 600 jobs over the coming months. CNN, the news network subsidiary of AOL Time Warner, told staff on January 17th that it was cutting 400 jobs and cancelling four shows. It has lost two top executives in the past week alone. Meanwhile, the other big networks, CBS and ABC, along with News Corp, the parent of Fox, have instituted hiring freezes.

Many of TV's present woes are simply the perils of a cyclical industry. Last year was unsustainably good, with a fortunate convergence of temporary business boosters, profligate dot.coms and an economic boom. It was an Olympic year, and also had a presidential election that went on and on, providing a surge in viewership for the news networks similar to that in wars. And a new show format—reality-based programming, such as "Survivor"—became a viewing obsession. After that, anything was bound to be a disappointment.

Not everyone was expecting this year's luck to be as bad as last year's was good, however. The car industry, traditionally one of the biggest TV advertisers, is going through a slump. Actors and screenwriters are expected to go on strike later this year, dimming the chance of a new hit show and threatening existing ones. Meanwhile, the wave of consolidation in financial services has reduced the pool of big advertisers on news and finance shows.

But these blows, painful as they may be, are not signs that TV will be rendered obsolete anytime soon. That was the claim made during the first wave of online media and after the introduction of digital video recorders such as the TiVo, which make it easy for viewers to skip advertising. Neither of these has risen as quickly as was once feared by TV executives. Nor are there signs that the longstanding challenge of cable to the big networks is increasing. Only one in four cable channels managed to gain market share in prime time last year. Overall, cable's gains have slowed from its rapid catch-up period of the 1990s.

Step forward, step back

In fact, for all their suffering at the moment, many TV giants are breathing a sigh of relief. Advertising

slumps are the devil they know, as opposed to the uncertain—and potentially much larger—threat from the Internet. Some are now backing away from their Internet investments as fast as they jumped into them two years ago. News Corp announced on January 5th that it was shutting its online division and cutting more than 200 jobs. NBC Internet has laid off nearly half its staff over the past year. CBS and Viacom's MTVi division have both cut about a quarter of their online staff. Most networks have been only too happy to retreat from a strategy that they saw as largely defensive, designed to compete with Nasdaq-fuelled start-ups and Wall Street demands for Internet valuations.

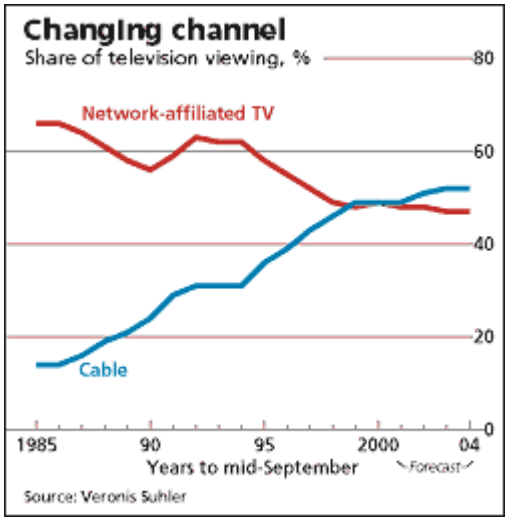
Yet although some of the immediate threats have subsided, the TV business is still heading for some sharp rocks. The problems are not new, but their very familiarity risks complacency among media executives focused on week-by-week ratings battles with old competitors.

For a start, America's television industry is growing more fragmented by the day. The explosion of channels that started with cable in the early 1980s is now accelerating with the deployment of digital cable, which can increase the number of available channels to 250 or more.

Digital satellite services that carry hundreds of channels, led by DirecTV, a subsidiary of General Motors' Hughes Electronics division, now reach nearly 15% of American homes. DirecTV is now so significant a media force that even a cash-strapped Rupert Murdoch is reported to be preparing a bid for it worth $40 billion. Meanwhile interactive television, which had an abortive start in the mid-1990s, is back, thanks to the broadband connections that cable and telephone companies have built to satisfy demand for high-speed Internet access. By next year, broadband cables will pass 10m homes.

In 1980, each of America's top 20 TV shows was watched by more than a fifth of all households, and the most popular were often seen in more than half of all homes with a TV. Today, hit shows are lucky to reach the 10% mark, and even blockbusters fail to reach twice that. In 1999, cable passed network television in overall market share (see chart), and the number of cable stations has kept growing, to more than 180 today, spreading advertising too thinly for many to make money. For all the new capacity coming on stream, newer channels such as Oxygen, aimed at women, and CNNfn, AOL Time Warner's answer to CNBC, cannot be seen in most big markets for lack of available channel slots.

Moreover, Americans are watching less television. Although the overall decline is still relatively small, young people—the market's future and one of its most attractive segments for advertisers—are turning away at an alarming pace. Since 1985, the average number of hours of TV watched by Americans under 18 has fallen by more than one-fifth, in part thanks to more time being spent surfing the Internet.



All this has conspired to turn a rich business into a relatively poor one. The cost of producing content—especially drama and sitcoms, with stars who increasingly demand Hollywood-scale salaries—is rising even as audience share shrinks. With the exception of last year, only NBC among the big four networks has managed to show meaningful profits since the mid-1990s (thanks in part to the financial discipline imposed by its parent, General Electric).

Anticipating a tougher business climate, the networks have over the past decade become part of large media (or, in the case of General Electric, industrial) conglomerates, to gain efficiencies of scale such as shared content and advertising sales. Yet if the merger of AOL and Time Warner, announced a year ago, says anything, it is that this is not enough. Time Warner is the biggest media conglomerate, with the broadest reach and opportunity for synergies across different media. Yet it reckoned that it was better off joining online competitors than competing against them.

But that was then, when dot.coms were king. And now? Unsurprisingly, AOL Time Warner argues that the deal makes more sense than ever—regardless of Wall Street's dim view of online ventures, AOL's position as an online powerhouse has been strengthened over the past year. With nearly 30m subscribers (including its CompuServe subsidiary) and four times that many instant-messaging users, it dwarfs the television networks' audience. And although many of the early new-media companies have gone under, the overall market for such services continues to grow, as the infrastructure for delivering rich interactive content expands. Meanwhile, television stagnates. History may show that Time Warner sold itself short, but the arguments for its deal might soon echo in other parts of Manhattan's embattled cluster of

television giants.

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Asian energy

Pipe dreams

Jan 18th 2001 | SINGAPORE
From The Economist print edition

IT WAS a rare display of togetherness by the tetchy tigers of South-East Asia. On January 15th, the leaders of Indonesia and Singapore threw open the valves on a crucial new pipeline between their countries. Over the next two decades, the 640km (400 mile) undersea link is expected to provide Singapore with natural gas worth $8 billion from Indonesia's West Natuna field. The two countries plan to sign an even bigger deal by next month, to channel gas worth another $7 billion to Singapore through a second pipeline from southern Sumatra. These agreements nail down two key pieces in what many hope will be a far bigger regional jigsaw: a pan-Asian pipeline network serving energy users from Indonesia to China.

Other bits of the puzzle are already sliding into place. Malaysia hopes to tap into the West Natuna pipeline to supply the southern tip of its peninsula. It is also pressing Thailand to start work on a joint pipeline that the two countries agreed to build three years ago. That would connect gas fields in the Gulf of Thailand—which the two countries jointly own—to Songkhla in southern Thailand, with some of the gas being piped onwards into northern Malaysia. Off its other coast, Thailand has already tapped into Myanmar's Yadana gas fields. And Vietnam is still toying with the idea of its own pipeline into the South China Sea.

Such energy-sharing plans are among the few instances of cross-border co-operation in South-East Asia these days. Visions of a regional free-trade area grew blurrier last year after Malaysia decided to shield Proton, its national car company, from competition. Thailand, Indonesia and the Philippines have responded by rethinking some of their own trade commitments. And businessmen in the region must cope with diplomatic frictions as well as protectionist ones: only two months ago, Indonesia's president suggested that his country and Malaysia might cut off Singapore's water supply.

The new pipelines are thus good news for fans of regional integration. Since Asia now accounts for almost 30% of the world's energy consumption—a share that is expected to grow rapidly—the boost is more than just symbolic. With a better pipeline grid in place, the region should be able to balance its energy supplies more efficiently. John Vautrain of Purvin & Gertz, an energy consultancy, argues that South-East Asia could gain a lot by following the North American model. With so many cross-cutting pipelines there, suppliers can funnel gas from the Gulf of Mexico to New York, or anywhere in between, whenever it is needed.

Of course, such networks become more complicated when lots of international borders are involved—one reason why 85% of the world's gas is consumed domestically. But South-East Asia at least has the advantage of shallow basins in the Gulf of Thailand and the South China Sea, which make undersea linkages between platforms easy to build. The military risks are manageable, too: the region's insurgencies tend to be far from the pathways of the proposed grid.

Perhaps the biggest obstacle is the shoddy way in which South-East Asia's energy monopolies are regulated and run. Malaysia's oil giant, Petronas, deserves some credit: although the state uses its profits to bail out favoured firms, analysts praise its efficiency. But the same cannot be said for Petronas's two big counterparts in the region.

An audit of Indonesia's monopoly, Pertamina, found that it had lost $6.1 billion to incompetence and

corruption over the two-year period from 1996 to 1998. Thailand's PTT is in better shape, but poor regulation and stalled privatisation plans have done it damage. With PTT and Pertamina in the way, it is harder for foreign production-sharing partners to meet clients' needs.

Still, there are grounds for optimism. The most important link to watch is the Thai-Malaysian pipeline to Songkhla, which the Thai side is still debating. When combined with existing pipelines, argues Mr Vautrain, the Songkhla link would make it possible to balance supply and demand for gas all the way from Thailand to Sumatra. That would be quite an accomplishment for a region with so much to argue about.

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Much ado about Ginger

Jan 18th 2001
From The Economist print edition

IS IT an anti-gravity machine? A helicopter backpack? A new type of energy source? One thing is certain: whatever it turns out to be, Dean Kamen's mysterious new invention has proved an extraordinarily efficient generator of hot air.

Mr Kamen, a 49-year-old American scientist, became the talk of the world's geeks on January 9th when it was reported that a $250,000 contract had been signed by the author of a book detailing his new, but still secret, creation. Excerpts from the book proposal, published on Inside.com, a gossipy website, only heightened the mystery. Mr Kamen's invention, codenamed "Ginger", or "IT", was said to have been described by John Doerr, a venture capitalist who has invested in it, as more significant than the World Wide Web. Another investor, Credit Suisse First Boston, supposedly predicted that Ginger would make more money in its first year than any product in history. Steve Jobs of Apple Computer was said to have told Mr Kamen that Ginger was as significant a breakthrough as the PC.

So far, this all sounds suspiciously like the South Sea bubble, the 18th-century scam in which investors were lured by a project whose nature could not be disclosed (because it didn't exist). Yet Mr Kamen is no crackpot—he has received numerous awards, including America's National Medal of Technology, and is the inventor of several medical innovations, such as a portable dialysis machine and the IBot, a wheelchair that can climb stairs. These serious credentials are now matched by big claims. According to the leaked proposal, Ginger will cost less than $2,000 when it goes on sale next year, and will "sweep over the world and change lives".

So what could it possibly be? Bob Metcalfe, a computing guru who claims to have seen a prototype, has compared Ginger to cold fusion, a discredited scheme for generating electricity from water, thus fuelling speculation that Ginger is some kind of energy source. Other ideas have been even more outlandish: a teleportation device, perhaps, or an anti-gravity machine.

On January 12th, Mr Kamen issued a statement in which he sought to dampen the speculation. "We have a promising project," he declared, "but nothing of the earth-shattering nature that people are conjuring up." Meanwhile, it emerged that Mr Kamen and others applied for a patent in December on a two-wheeled "personal mobility device" that resembles a scooter. Mr Kamen is also known to have done research into a novel kind of engine that might power such a device.

The likelihood that he is developing a fancy scooter will no doubt disappoint many people. But what is most extraordinary about the affair is how widespread the desire (at least in the media) seems to be for the Next Big Thing. Tellingly, none of the suggestions about what Ginger might be have centred on innovations in computing or the Internet. The notion that mere computer hardware and software can change the world has, it seems, already fallen from grace.

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Biotechnology

Rites of passage

Jan 18th 2001
From The Economist print edition

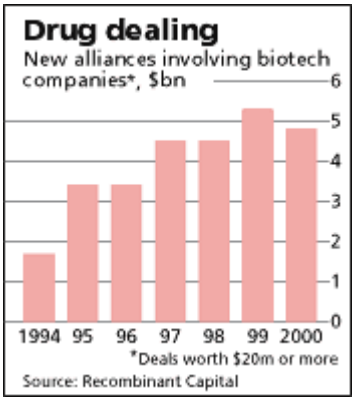
IN INDUSTRIES, as in families, youngsters can come off badly in bargains struck with their older siblings, outmanoeuvred into taking all the risk with little share in the reward. This is certainly true of the youthful business of biotechnology and its big brother, the pharmaceutical industry. Only three years ago, when investors were lavishing attention on Internet companies and neglecting the biotech sector, fledgling biotech firms were signing away their rights to turn bright ideas into real products to bigger, more profitable drug makers. In exchange, they got a meagre allowance of performance-related payments and the promise of royalties.

Now, however, a change of fortune on Wall Street and the emergence of new drug-making technologies are starting to put some biotech firms on an equal footing, if not giving them the upper hand, in deals with the pharmaceutical giants. A case in point is the alliance announced this week between Bayer, a German drug company, and CuraGen, a small American biotech firm. The two have agreed to invest up to $1.3 billion jointly over the next 15 years in developing drugs for obesity and diabetes.

CuraGen is one of a growing number of companies specialising in ways to translate the wealth of information in the newly sequenced human genome into “targets” that drug makers can use to develop medicines. According to Joseph Dougherty, a biotech analyst at Lehman Brothers, CuraGen has created a powerful technology platform that in effect industrialises these processes, and has already filed hundreds of patents. What it lacks are the skills to turn its data into certain kinds of drugs—which is where Bayer comes in. The two firms hope to turn 80 genetic targets, identified by CuraGen, into a dozen potential drugs, faster and with fewer side-effects.

Like most of its pharmaceutical peers, Bayer has signed plenty of deals with biotech firms before. This alliance is different, however, as it gives CuraGen a 44% stake in the products that might emerge, in proportion to its investment in research and development. Jonathan Rothberg, CuraGen’s boss, argues that the deal gives his company the best of both worlds, off-loading the risk of early drug development to a partner far more able to shoulder it, while retaining a fair share of the rewards of subsequent clinical development and commercialisation.

One reason why CuraGen and other genomics firms can wangle such favourable deals is that they can now afford not to sell their souls to the drug industry. Despite volatility in share prices, biotech firms raised a record $31 billion in public and private placements last year, according to Mark Edwards, an industry analyst with Recombinant Capital. The industry’s market capitalisation soared by 38% in 2000, and some firms have plenty of cash reserves.



Even as biotech firms are gaining ground, pharmaceutical companies are more vulnerable than ever. Shareholders have come to expect double-digit profit growth, which the industry’s giants are struggling to deliver largely by merging with one another. At the same time, firms such as AstraZeneca are likely to lose billions as their bestselling drugs go off patent in the next couple of years. Few companies have drug pipelines that are packed enough to sustain their previous rates of growth. No wonder they are turning to biotech firms—especially those with the key to genomics—for help.

Nor are they alone. Deals worth some $4.8 billion were signed by biotech firms last year (see chart), many of them among themselves. The biggest biotech firms, such as Amgen, now have the size and profitability of mid-sized pharmaceutical companies, and can compete for the attentions of their smaller brethren. So they too are placing bets that genomics will lead the way to better drug development. That their money is helping to transform partners into competitors is one

side-effect that genomics firms have little urge to prevent.

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Correction

Jan 18th 2001
From The Economist print edition

The chart that accompanied our article on South Korean entrepreneurs last week showed the share of "workers" in new firms. We should have made clear that the numbers referred to the percentage of adults owning and managing new firms.

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Opel loses a packet, and another boss

Jan 18th 2001 | FRANKFURT
From The Economist print edition

AP

Hendry goes down

FOR many months Robert Hendry, the chairman of Adam Opel, General Motors' German subsidiary, had dismissed as "speculation" a succession of stories saying that his days in office were numbered. On January 17th, the speculation ended: Mr Hendry announced that he would resign in March.

Behind both the speculation and the fact lie Opel's continuing awful results. On the day that Mr Hendry said he intended to step down, Opel announced that it had made an operating loss of DM982m ($463m) last year, compared with a loss of DM275m the year before. Yet when he took up the reins in November 1998, having licked Saab, GM's Swedish luxury-car subsidiary, into shape, Mr Hendry said that he expected Opel to be back in profit by 2000. How could his forecast have turned out to be so wrong?

A chief culprit, in the short term, has been the unexpectedly prolonged decline in the German car market. Last year, German car registrations were down by 11%, compared with a European average decline of 2.2%. But Opel's longer-term problems have meant that it fared much worse than others. The sorts of cars it has traditionally made—mass-market models such as the Astra and Vectra—are the ones least in demand. Its sales in Germany dropped by more than 20% in 2000, to 409,000. Increased sales abroad (the Astra, happily, is the bestselling car in Latvia) were not enough to compensate.

On top of this, the cost of improving the quality of Opel's cars and buffing up its dowdy brand image is weighing on the bottom line. Opel is getting into faster-growing segments of the market, such as small vans, and looking at replacements for its older models. This year's new cars, promises Mr Hendry, will include sporty vehicles that are fun to drive. But all this will take time to bear fruit: and, meanwhile, Opel has a lot of ground to make up on its rivals, notably Volkswagen.

Who Mr Hendry's successor will be, Opel is not saying—although the name of Carl-Peter Forster, who left the board of BMW last year, has been widely touted. Both GM's management and Mr Hendry, an American who speaks little German, have long been saying that the next boss should be a European. The unions, which have failed to warm to Mr Hendry's Anglo-American management style, want a German at the helm.

German or not, the new boss will face a hard task. With the American economy and demand for cars both braking sharply, GM would love to see its European arm take up the slack. But Europe's economies are slowing too, albeit more gently. Moreover, Opel's recent record inspires little confidence. Even though, like all departing chief executives, Mr Hendry believes that he has laid firm foundations, it could take years to burnish the firm's faded brand. The wonder is that Mr Hendry ever thought he could repair Opel so quickly.

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Antitrust in Asia

Regulation speed

Jan 18th 2001 | HONG KONG
From The Economist print edition

SOME years ago, two senior directors of Hutchison Whampoa, Hong Kong's biggest conglomerate, were negotiating with another company. Hoping to help his boss out, the junior of the two scribbled down a suggestion. Why not, said the note, remind them of Hong Kong's open markets? The senior director glanced at the message, jotted down a reply and passed it back. "Bullshit," he had added; "Hong Kong was built on cartels, and don't ever forget it."

What is most striking about this anecdote—as recalled by the younger director—is that almost every businessman in Asia has one like it. Indeed, that Asia's consumers suffer from producers who abuse their market power has long been known. This makes it all the more regrettable that Asian governments are only now starting to fight back on their consumers' behalf.

Japan's antitrust watchdog, which has traditionally been staffed by ministries that were in turn beholden to the industries that they regulated, is now investigating the country's telecoms giant, NTT, in the biggest case in its history. South Korea's trustbuster, after nearly two decades of quiescence, recently fined two of the country's biggest industrial groups, Posco and Samsung, for anti-competitive practices. Indonesia passed its first competition law in 1999 and has since established a watchdog to enforce it. And Malaysia, which does not yet have competition laws, is now drafting them—though, according to one official, they may take as long as five years to pass.

Despite this burst of activity, most Asian governments still give a low priority to antitrust. Hong Kong and Singapore, the region's two most developed markets outside Japan, still do not have a law against cartels. This is in contrast to Europe and America: all OECD member countries have formal antitrust authorities, and big mergers often hinge on their green light. The merger of AOL and Time Warner, for instance, was long delayed waiting for America's Federal Trade Commission and Federal Communications Commission to clear it. A recent British decision that Interbrew should sell the British brewing assets it bought last year knocked 25% off the Belgian firm's market value.

In Asia, the temptation for producers to play foul may be even greater than in Europe or America, because economic power tends to be concentrated in fewer hands. In South-East Asia, for instance, most business is still controlled by a small number of ethnic-Chinese tycoons, who cultivate close ties to local governments and to each other. In South Korea, despite a recent breath of entrepreneurial fresh air, giant family-owned conglomerates, or *chaebol*, still dominate the domestic market.

Nor does Asia have consumer lobbies to match those in western countries, although a middle class of wiser and more demanding shoppers is starting to appear, especially in more developed markets. In Hong Kong, for instance, a consumer council (financed mostly by the government) tries to keep an eye on suspicious industries, ranging from textbooks to chickens. Its pressure may have swayed Hong Kong's banks to phase out fixed interest rates on deposits, and stockbrokers to end their cartel in commissions.

But consumer lobbies not backed by law and force are ultimately impotent. Most cartels are exposed by whistleblowers—insiders who inform the authorities—and these tend not to risk coming forward if no law is being broken. Hong Kong's consumer council has received information on cartels in three industries (which it prefers not to name), but it has no mandate to investigate.

It may not be enough for governments to attack cartels one industry at a time. Hong Kong recently passed two industry-specific ordinances, one for telecoms and one for broadcasting. Almost immediately, the newly empowered telecoms ombudsman blew the whistle on a simultaneous price increase by mobile-phone operators. But such a sectoral approach would fall short when abuse occurs across industries. In Asia, where the biggest companies are not focused on one industry but sprawl across many, only comprehensive competition laws are likely to do the trick.

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Beer makers

The big pitcher

Jan 18th 2001 | NEW YORK
From The Economist print edition

Brewers are trying to shed their local heritage to become global marketers

"GLOBAL" is a buzzword in most industries, and beer is no exception. Dutch-based Heineken, the world's second-biggest brewer, boasts that its eponymous brew, drunk in more than 170 countries, is the most international beer brand in the world. Belgium's Interbrew calls itself "the world's local brewer". And everybody has heard of, if not gulped, the watery fizz known as Budweiser, made by America's Anheuser-Busch, the world's biggest brewer.

Given the number of international mergers recently, brewing certainly ought to be global. The past two years have seen some $13 billion worth of deals, the most active period of consolidation in the industry's history, according to Deutsche Bank. As a result, consumer groups and politicians have become concerned about the growing power of brewers. For instance, an attempt by Interbrew to buy the brewing assets of Britain's Bass was recently blocked by the Competition Commission on the grounds that it would create a duopoly with Scottish & Newcastle.

It is sobering to learn, then, that beer is one of the least global consumer goods of all. Nine out of every ten cans of Budweiser are still drunk in America; some 61% of Heineken's and 68% of Carlsberg's are drunk in the European Union, according to Frank Walters of Impact Databank, a consultancy. Nor is beer all that strongly branded. Only two beers figure in Interbrand's 75 top global brands—Budweiser and Heineken—and they are well behind such names as Coca-Cola, McDonald's and Marlboro.

The industry also remains fragmented. Budweiser, the biggest brand of all, has only 3.6% of the 1.3 billion-hectolitre world beer market (see table), and the top 20 combined have barely more than a quarter. Some of this is down to history. Beer has been around a lot longer than colas, burgers or cigarettes. The man in the street tends to be deeply attached to his favourite pint, making beer an industry in which small local brands can continue to prosper. Everards, a small English family-owned brewery, does nice business with such special tipples as EBL, brewed for the Queen Mother's 100th birthday and named after the initials of her maiden name.

Victory for Busch
Top ten global beer brands, 1999

	Brand	Brewer	Market share, %
1	Budweiser	Anheuser-Busch	3.6
2	Bud Light	Anheuser-Busch	2.6
3	Asahi Super Dry	Asahi Breweries	1.8
4	Skol	Ambev	1.8
5	Corona Extra	Grupo Modelo	1.7
6	Heineken	Heineken	1.6
7	Brahma Chopp	Ambev	1.5
8	Miller Lite	Miller Brewing (Philip Morris)	1.4
9	Coors Light	Coors Brewing	1.4
10	Polar	Cerveceria Polar	1.1

Source: Impact Databank

It is also uneconomic to transport large quantities of beer far when it is often heavily taxed across borders. And building a local infrastructure, including a brewery and distribution network, requires huge amounts of capital. Yet most beer tastes remarkably similar, so it is hard to charge a premium for it. "Ninety-five per cent of beer is pilsner," says John Wakely, a brewing analyst at Lehman Brothers. "When Budweiser goes up against Tsingtao in China, what is the difference except price?"

Local regulations also hold back firms with global ambitions. The brewing business might not enjoy the strategic importance of national airlines or car companies, but it is still important in many governments' eyes—just think of Germany's *Reinheitsgebot* (purity regulations), which until recently discriminated against beers that were not brewed to fiddly German specifications. Such rules have made it difficult for brewers from different countries to invade each other's turf.

Instead, they have concentrated on domestic mergers. With the exceptions of Germany and China, every big national beer market is now dominated by at most three domestic brewers. The most international

brands tend to come from countries with relatively small home markets. “We simply had to go international early on to grow,” says Karel Vuursteen, Heineken’s boss.

Small home markets are not the only problem. Beer is a mature, slow-growing business. Mr Walters forecasts annual growth of only 1.5-2% in world beer volumes between now and 2005—a quarter of the growth rate expected for soft drinks. This expansion is unlikely to satisfy shareholders; they are putting pressure on brewers to grow by raising their market share.

Most firms are likely to prefer the speed of acquisitions to slow organic growth. Now that national consolidation has largely run its course, brewers have no choice but to attempt trickier cross-border deals. Heineken would like to pick up Bass, which owns Carling lager, though it may face stiff competition from Carlsberg and others. Heineken is also tipped to take a controlling stake in Kaiser, Brazil’s second-biggest brewer, which it might merge with Argentina’s Quilmes. Meanwhile, Interbrew is likely to shake off its Bass hangover with a new deal, perhaps buying Grolsch of the Netherlands or increasing its stake in Mexico’s FEMSA. Longer term, Philip Morris might sell its Miller brand; Diageo, owner of Guinness stout, is rumoured to be interested in Foster’s lager.

How wise are such forays? Most cross-border ventures so far have been disasters, reflecting the parochial nature of beer firms. Buyers have generally failed to pull off the trick of pushing their own premium brands through newly acquired distribution networks while continuing to nurture their acquisition’s local brews. As a result, they have tended to squander drinkers’ loyalty.

The missing ingredient seems to have been marketing. “There is a strong production and distribution tradition in the beer industry, less a marketing tradition,” says Heineken’s Mr Vuursteen. However, he thinks the future will be different: “The world’s population is becoming more international. Young adults in Munich are the same as in Stockholm and Shanghai. They are looking for common symbols with which to identify.” And there is evidence that tastes in beer are converging. In Britain, clever marketing has created demand for bland but refreshing lagers over the wide variety of tastier ales.

Could the biggest brewers go further and turn into marketing powerhouses that gradually unburden themselves of their costly production and distribution infrastructure—a model that Coca-Cola has pioneered with its separate bottling organisation? Not easily, if past attempts are any guide. Boston Beer Company, famous for its Sam Adams brand, for years made much of its status as a company that subcontracted production. But that model has proved unworkable, and the firm recently reopened its own brewery. It would seem that the industry is not quite ready to call time on its traditions.

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Economist.com BUSINESS
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Face value

A great leap, preferably forward

Jan 18th 2001
From The Economist print edition

Jörgen Centerman, the new boss of ABB, has moved quickly and ruthlessly to stamp his mark. But is his vision of an Internet-based future correct?

IN THE first few weeks after he was anointed as the new president and chief executive of ABB last October, Jörgen Centerman set himself a bracing pace. Before taking up his job on January 1st, he met each of the company's top 100 managers. Over three-hour-long sessions, he asked them to brief him on their businesses and to discuss where the electrical and engineering giant should go next. He sent out a questionnaire to solicit further opinions. It was methodical research, typical of a man who determinedly became a wine expert after being embarrassed by his youthful ignorance when entertaining French customers.

Armed with this information, Mr Centerman moved quickly. On January 11th, he announced a striking departure from the regime of Göran Lindahl, his predecessor. He increased the membership of the executive board from seven to 11, bringing in his own allies and demoting two of Mr Lindahl's lieutenants. He scrapped Mr Lindahl's group structure, replacing four industrial divisions with four new customer segments, two product-based divisions and a new arm to manage "corporate transformation". To cap it all, he said ABB would henceforth aim to become a "knowledge-based" company (did it preach ignorance before?) that uses the Internet to respond more quickly to customers' needs.

This was bold stuff. ABB is an industrial giant with 160,000 employees and a presence in more than 100 countries. Such corporate supertankers rarely possess the nimbleness said to be needed for the Internet age. Further, against today's background of collapsing dot.coms and cratering valuations for Internet ventures, Mr Centerman's change of course might jangle investors' nerves.

The new strategy is all the bolder because ABB is only halfway through a transformation attempted by the mild-mannered Mr Lindahl. But Mr Centerman insists he is no thoughtless revolutionary. An ABB man to his core, he is in no doubt about his chosen course. "It is the latest evolution for ABB. There is no hesitancy in the group about our overall direction," he claims.

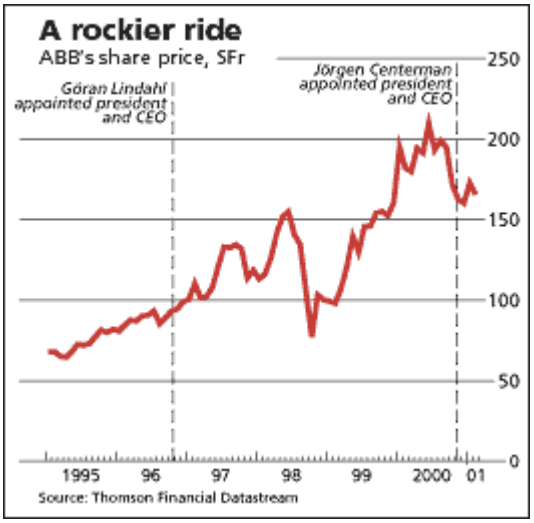
He had better be right. ABB is much-admired and much-studied, thanks mainly to the prowess of Percy Barnevik, a Swede who ran the group for 16 years and who remains its chairman. Mr Barnevik combined a no-nonsense approach with a willingness to innovate and to take risks, notably the decisions to merge Sweden's Asea with Brown Boveri of Switzerland in 1987, and to expand globally during the 1990s even while trying to keep a cohesive identity and culture. Mr Lindahl built on that legacy after he became chief executive in 1997.

By contrast, and with Mr Barnevik's blessing, Mr Centerman has made an aggressive jump into new territory. By pushing ABB now he hopes to create an advantage in the coming years as competitors struggle to catch up. That would please investors who have watched ABB's shares stumble amid uncertainty about its ability to increase its profits (see chart).

Mr Centerman's vision rests on the idea of "collaborative commerce" between suppliers, manufacturers and customers. At present, large firms such as ABB have broad portfolios of products that are marketed to thousands of customers in many different ways. This tends to limit efforts to make processes more efficient. Typically, companies have focused on making research and development work more closely with their own

engineers and sales teams and with suppliers, but not with customers.

Mr Centerman thinks all that is changing, thanks to new ways of interacting with customers, particularly via the Internet. By rejigging its approach to focus on customers, he thinks ABB can deliver genuine efficiencies. Ideally, its businesses will operate in a seamless way, with information always trickling to where it can be useful and knowledge quickly being shared across the group. Mr Centerman calls the goal "highly flexible mass customisation" for four groups of customers: in process industries, in manufacturing and consumer industries, in utilities, and in oil, gas and petrochemicals.



A permanent revolution?

To get to this goal, ABB faces two challenges. First, to create flexible links with customers, using both the Internet and traditional channels. Second, to ensure that its internal information-technology systems are sufficiently coherent to deliver the intended results. This explains Mr Centerman's creation of the division responsible for corporate transformation, as well as a division to oversee internal processes.

Despite the impending revolution, much about ABB will not change. An important part of Mr Barnevik's legacy was a 500-strong group of like-minded international managers with broad experience and operational independence. There are no plans to tinker with this resource. Indeed, Mr Centerman himself is typical of the breed. He began his career with Asea in 1976, and spent a year working for another company in the mid-1980s before rejoining and rising swiftly up the ranks in the process-automation division. He has worked in five different countries, including a stint in America that involved 200 travelling days each year.

As chief executive, he will continue to travel, taking his message around the world. The question is whether his colleagues will listen. Mr Centerman divides managers into two groups: those who react to new ideas by saying "Yes, but..." and those who respond "Why not?" Clearly in the second camp, he says there should be tangible results from his revolution within a couple of years. Unless, of course, the "Yes, but" camp proves to be better-manned than he bargained for.

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OPEC

Over a barrel

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From The Economist print edition

IT ISN'T easy running an oil cartel these days. What with forecasts for global demand so unreliable, supply figures sketchy at best and Saddam Hussein so inscrutable, how in the world are market manipulators to decide exactly how many barrels to crank out and how many to keep in the ground?

That is the puzzle that OPEC's ministers faced when they met in Vienna on January 17th. Over the past two years, the oil price has plunged to a whisker over $10 a barrel, then soared past $35 a barrel last year. In the days before they met, the price for the cartel's own basket of crudes bounced around within the informal target range of $22-28 a barrel that OPEC likes to talk about. As it tried to steer prices into that range in the face of last year's strong demand, it increased production quotas four times, by a total of over 3.5m barrels a day. Yet this week ministers agreed unanimously to cut quotas by 1.5m barrels a day, or around 5.6% of their present level, from February 1st.

Why cut now? After all, inventory levels remain low in most parts of the world. The big consuming countries, such as the United States and members of the European Union, have been clamouring for no cuts. Bill Richardson, America's outgoing energy secretary, personally lobbied several OPEC members before the meeting to hold off. "Our concern is a spike in oil prices and a potentially recessionary effect," he said. Besides, prices are now within the cartel's target band.

The real reason for OPEC's about-turn is the memory of Jakarta. When ministers met in Indonesia three years ago, they agreed to raise output just as the Asian economic slump was beginning—which promptly led to a price collapse. Keen to avoid a repeat, they have become hyper-sensitive to any sign of softening demand.

And when the cartel's worthies met this week, they found plenty to worry about. There are strong signs that America's economy is slowing down, and possibly even heading toward recession. Another factor is seasonal: at the end of the northern hemisphere's winter there is often a big drop in oil consumption. Yet another reason to pare production was the present mismatch between production and consumption: the increases in output agreed last year have left production outpacing consumption by a significant amount.

So prices will remain within that comfortable $22-28 band, will they? Don't count on it. OPEC has a feeble record in dictating prices to the market. For one thing, its ill-disciplined members might not adhere to the accords, if history is any guide. For another, the global economy may prove even trickier to predict than the oil market in coming months. And then, of course, Saddam Hussein remains an imponderable: he has been turning his taps on and off willy-nilly as he wrangles with the United Nations to get sanctions lifted. The irascible tyrant could well have his OPEC brethren, and the rest of the world, over a barrel.

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A state of gloom

Jan 18th 2001
From The Economist print edition

One of the wealthiest regions in the world is on the brink of an energy crisis of third-world dimensions. How did California come to this?

Get article background

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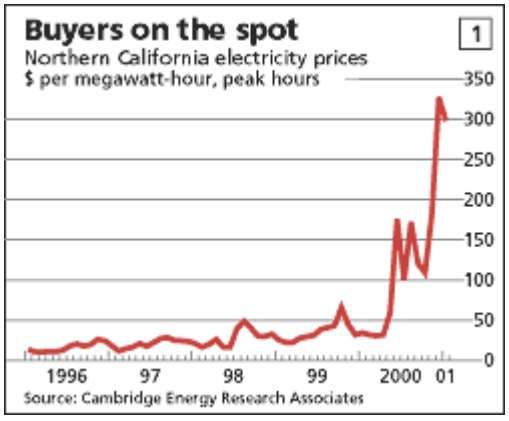
ON JANUARY 16th, the Californian state assembly passed a bill giving the state a central role in the local electricity market. This, in effect, turned the clock back on the deregulation of California's power industry begun in 1996 amid grand promises of reduced rates for consumers, more secure supplies for business, and bigger markets for power companies. But in fact the state had few options. On the same day, two of California's largest utilities had their debts reduced to junk by the leading credit agencies after one of them, Southern California Edison (SCE), announced that it would not be paying $596m due to creditors, in order to "preserve cash".

That undermined the ability of SCE and of Pacific Gas & Electric (PG&E), the other big utility in the state, to buy power on credit, and pushed them to the brink of bankruptcy. On the same day, a "stage 3" emergency was declared, the highest level of alert, called only when power reserves fall below 1.5% of demand. On January 17th, one-hour black-outs rolled round the area of northern California served by PG&E. And Governor Gray Davis declared a state of emergency, authorising the state water department to buy power.

This is a dreadful mess for a state that is held up around the world as a model of innovation and dynamic markets, and that was the first in America to pursue deregulation. What on earth has gone wrong?

The short answer is, botched deregulation. The peculiarly bad way in which California's deregulation was organised freed prices for wholesale electricity while putting a freeze on retail rates. As a result, the state's utilities have been forced to buy power on the red-hot spot market (where prices have soared recently—see chart 1) for far more than they are able to recoup from consumers.

Catastrophe has been looming for some time now. The state's residents have already endured a series of annoying and expensive "brown-outs". Indeed, power emergencies have become so common that they are announced along with the traffic and weather reports on the morning news.



Only recently, however, have local politicians begun to take action. Earlier this month, the state's legislature approved a temporary rate increase to ease the pain for the utilities. Mindful of the state's noisy consumer lobbies, legislators approved a hike of only about 10%, and then only for three months. And even that is subject to reversal. It came nowhere near the 30% hike that the utilities claim they need to survive.

Mr Davis, the state governor, tried to bully his way out of the crisis during his "state of the state" speech on January 8th. "Never again can we allow out-of-state profiteers to hold Californians hostage," he declared, threatening to seize electricity assets and run them himself if necessary. Needless to say, his speech did not help much. Curtis Hebert, a Republican commissioner on the Federal Energy Regulatory Commission (FERC), the country's top electricity regulator, fumed: "You've got a governor who cares

more about being on a night-time news show than he does about fixing the problem in California."

British fog

If California fails to tackle its power problems swiftly, the knock-on effects could be severe. Morgan Stanley Dean Witter, an investment bank, has just warned that "California's crisis could magnify the downside for the whole economy. In the end, the state's energy crisis could prove to be an unwanted wild card for the American financial markets and the global economy at large."

Such fears of contagion explain why the outgoing Clinton administration has been scrambling to organise a series of summits between state and federal officials, the utilities, and their main power suppliers. The legislation passed this week, if it ever becomes law, would allow California's creditworthy Department of Water Resources to buy additional power directly under long-term contracts and to sell it on to the utilities at a fraction of the current spot-market price. But, inevitably, this can serve only as a stop-gap measure; the talks brokered by federal officials, aimed at providing the foundation for a longer-term solution, are due to resume on January 23rd.

To see how California might move forward, look first at how it got itself into such a pickle. Largely inspired by Britain's success in opening up its power sector a decade ago, California led the United States into the brave new world of liberalised electricity markets. After years of haggling among various interest groups—from the big utilities to greens and consumer organisations—the administration of Mr Davis's predecessor, Pete Wilson, put together a compromise deregulation bill with enough bells and whistles to please almost every interest group.

Through the whole process, Britain's power deregulation was the inspiration. Stephen Baum, the boss of Sempra (which owns San Diego Gas & Electric, a utility that is in better financial shape than PG&E and SCE), says that "California embraced competition as a religion and the English model as our guide." However, California's zealous reformers forged ahead without taking into account some important differences between California and Britain—for example, in areas such as reserve capacity. In Europe, deregulation has not resulted in reliability problems. But credit for that belongs not to European models of reform, but rather to excess capacity. Europe's top-heavy, state-dominated power sector has tended to "gold-plate" its assets (through higher tariffs paid by captive customers). California was not in such a happy position.

Another difference between the two models is that Californian officials let pork-barrel politics inhibit the development of the retail market. Rather than allowing prices to fluctuate, politicians decided to freeze electricity rates for a few years—supposedly in the interests of the consumer. But that gave consumers no reason to cut power use even when wholesale prices sky-rocketed—as they have done recently.

Also, under pressure from the big and politically powerful utilities, the state's politicians agreed to compensate the companies generously for "stranded assets"—such as the big power plants built before deregulation suddenly changed the rules of the game. That sounds fair enough, but California agreed to value those assets much more generously than other states. Worse still, officials decided to burden new entrants to the business with part of the cost of the "stranded assets" built by the incumbents. Hence newcomers have been severely handicapped in their ability to compete on price.

A number of other states largely avoided making these mistakes. In Texas, for instance, firms are free to enter into long-term contracts in order to hedge against the risk of volatile prices. And Pennsylvania has had great success in spurring competition from newcomers.

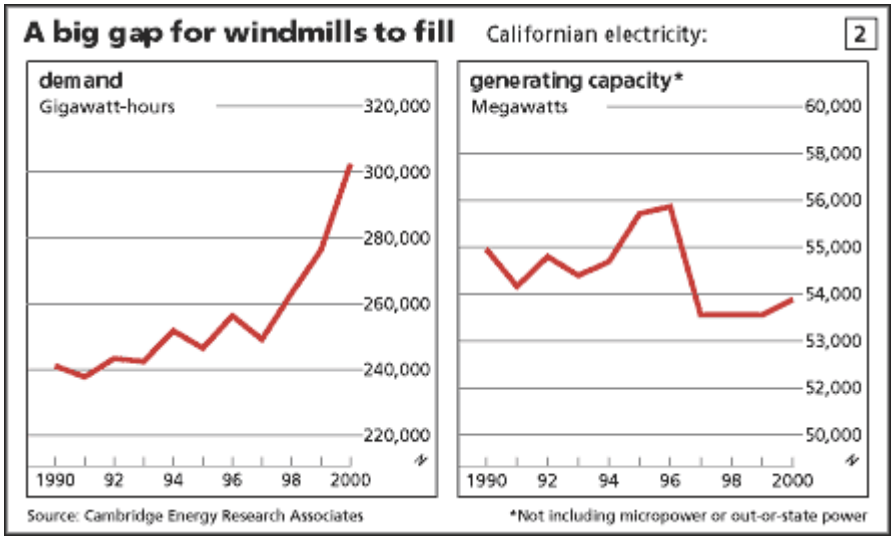
California allowed none of this, and the upshot is that hardly any Californians have switched retail suppliers, unlike Pennsylvanians. In Britain, one-quarter of the public has switched. What California dubbed "deregulation" did very little to unshackle the power sector from the state.

Supply, demand and politics

Yet even with its half-baked, half-British model, the state might have muddled along for quite some time. The snag is that a bunch of uniquely Californian forces conspired to bring things to a head: fierce opposition to new power supply; a dramatic surge in demand; and, in particular, the politics of pork and populism.

For a start, the state's supply picture has grown ever bleaker. New power plants are rarely popular in any part of the world, but in California the famous "not in my back yard" (NIMBY) syndrome has reached ridiculous levels, thanks to the state's hyper-democratic balloting process. The state has also long had the toughest environmental laws in America, and these have helped to make power generation unattractive. Thanks to greenery gone mad, neighbourhoods turned selfish and surly, and red tape and regulatory uncertainty run amok, the state's utilities have not built a new power-generation plant in over a decade.

Yet the state's appetite for electricity has shot through the roof. Defying official forecasts made early in the decade, California's power consumption grew by a quarter during the 1990s (see chart 2). The most dramatic factor fuelling the growth in demand has been the digital revolution, spawned in northern California. As computing power has spread to everything from the manufacture of microchips to the frothing of cappuccinos, California has defied eco-pundits and state officials who forecast that the Internet and the "new economy" would inevitably lead to less consumption of electricity. In San Jose, the heart of Silicon Valley, consumption has been growing at about 8% a year.



The clincher, though, has been the peculiar politics of California. Politicians and regulators have been fiddling with the reform process in ways that are both capricious and counterproductive. Amazed that the free market for wholesale power responded to last summer's supply squeeze by raising prices, panicky officials ordered "caps" on those prices. Predictably, the caps have failed miserably—as the more recent supply crunch amply demonstrates.

Power prices shot up because supply was scarce, and the right solution would have been to let markets respond—as mid-western states did when they suffered similar price hikes a few summers ago. They did not meddle in the wholesale markets, and generators responded to the price signals by rushing to add supply. Notably, the crises there have not recurred.

The most disturbing failure in California, however, lies with the regulators themselves. Sometimes they trust not at all in market forces: for example, they actually discouraged utilities from hedging their price risks by purchasing derivatives. This lunacy as much as anything explains why the state's utilities are now on the verge of insolvency, compelled to buy power on the spot market.

Yet at other times, the regulators naively expect the market to sort out the problems of transition by itself. When Britain deregulated, for example, its pricing mechanism offered power suppliers an explicit top-up to encourage them to create reserve capacity. Though California deregulated into a much tighter market, its regulators offered no such incentive, relying entirely on the market to secure adequate supplies. This schizophrenia explains why the Californian reforms are a ragbag of muddled half-measures and downright anti-competitive clauses.

AP

Given the imminent collapse of the state's utilities, there is much agitation from all quarters for the state or federal government to do something. But what? James Hoecker, the current head of FERC, says that "California's market is clearly flawed by design...it will be very difficult to reform, but

reform it we must, and reform it we can."

AP
That solution's a long way off

The Clinton administration might have offered some help: Bill Richardson, the departing energy secretary, has long advocated regional price caps. Mr Hoecker saw those caps as too hard to implement, but he too sought a regional solution on the grounds that the Californian crisis is really "an enormous struggle between sellers of power, mostly in the interior states, and the buyers of power, mostly on the coast." But both Mr Richardson and Mr Hoecker are leaving office this weekend, and the men chosen by George Bush to replace them will be likely to oppose anything that calls for heavy-handed federal involvement.

One option for those looking for a way to bring the state out of this mess is to let the utilities go bankrupt. Some market-minded folk argue this case, pointing out that companies in all sorts of industries go bust all the time. Setting aside politics, why not power too? Surely the lights can be kept on, argue such voices, by the bankruptcy court, the state or, ultimately, by the new managers of those assets?

This is a tempting argument, but the reason why bankruptcy is not a solution, argues Tom Higgins of Edison International, the parent of SCE, is that "this situation is directly the result of government action and inaction; it is not due to management failure." Any new manager of the utilities' assets would find it impossible to run them under the perverse conditions mandated by California's current regulatory regime.

Get a grip, Governor Davis

Another option is for the state to give in to the popular backlash and to re-regulate the power business. That is not such a remote possibility. Carl Wood of the Public Utilities Commission, California's top electricity regulator, wants not only to re-regulate, but to go further and introduce a big state presence in power. Mr Wood says: "I'm not an economist, so I'm flying by the seat of my pants, but it seems to me that it is orthodox economics that got us into this mess in the first place." Mr Davis also hinted at a reversal in his recent speech, with its sinister threats of expropriation and criminal action. While such a move cannot be ruled out, it would be sheer folly to let the state's incompetent, bungling politicians and regulators run the power utilities as a reward for having run them into the ground in the first place.

What next?

The sensible way forward is to see any state intervention as a short-term fix that merely buys time to sort out the regulatory mess, and so propels the state towards a market-based long-term solution. Any short-term fix, which must surface soon in view of the parlous state of the utilities' finances, needs to deal with three separate aspects of the current liquidity crunch: paying for yesterday's power; paying for today's power; and paying for tomorrow's power.

Yesterday's power led to the $12 billion or so in debts now owed by the utilities to banks, power producers and other creditors. Any deal will probably include an agreement to allow delayed repayment in return for some sort of guarantee, implicit or explicit, from the state that the creditors will indeed get their money some day. This week's legislation suggests that today's power will probably be purchased by the state. As for tomorrow's power, even the state cannot afford to pay spot prices for long. So some sort of long-term contracts offering prices closer to historical norms are inevitable.

Having bought a few months' respite, which may not last beyond this summer's peak demand, Californian officials must restructure the electricity system to put it on a sounder footing. Mr Baum of

Sempra says they must focus on the following: “What will reduce the demand for power? What will increase power supplies? Unless the basic laws of supply and demand are repealed, those two questions must be answered. Everything else is just a sideshow. ”

California needs to reform its laws in order to encourage power generation. This will mean, for example, ensuring that environmental regulations are not needlessly prohibitive. It must also involve paring back red tape. This may not be easy, but surely there is no justification for power-plant approvals taking twice as long in California as elsewhere in America (including places that have similar concerns about air quality).

Officials must also find ways to get around the NIMBY problem. One possibility may be a suggestion by Mr Davis that the state withhold funds from localities that are particularly obstructive, in the way that the federal government withholds highway funds from wayward states. An even better solution would be to remove barriers to entry for distributed generation, and to ensure that the established incumbents do not obstruct new micropower plants.

As important as boosting generation is fixing the consumer market. In the long run, liberalisation and competition will deliver lower electricity prices for companies and households alike. But there is a case for protecting domestic households from price volatility until a genuinely competitive retail market emerges. Unless consumers see fluctuations in prices, however, especially at peak times, they will have no incentive to save power or to shift their use off-peak. This leads to an obscene waste of energy.

To allow retail prices to fluctuate with market conditions requires the installation of sophisticated meters for all the state’s consumers. Crucially, proper metering will speed the arrival of such innovations as fixed-price “energy service” contracts, which promise outcomes such as certain levels of heating, rather than the mere delivery of kilowatts. Price transparency will also allow micropower plants to sell and buy power on the grid as demand dictates, so improving the grid’s reliability.

If California’s politicians see today’s crisis as a chance to fix this deregulation gone awry, then the future may be bright for the state’s suffering citizens. Muddling along and hoping for manna from heaven is no longer an option. The state’s irresponsible politicians have one last chance to fix the mess that they have created. If they do not, then at best it will be a sweltering summer for Californians this year.

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Stronger foundations

Jan 18th 2001
From The Economist print edition

New proposals for regulating banks are both a step in the right direction and evidence of how hard it is to monitor the riskiness of the banking system

AMERICA'S banks have spent this week announcing disappointing results, thanks in part to losses from loans that have gone sour. The start of a downturn in the credit cycle is an interesting moment to ask whether banks have enough capital in reserve to cope with their bad-loan problems—which, in a roundabout way, is what the Basle committee on banking supervision did on January 16th, when it unveiled proposals for new capital-adequacy standards for internationally active banks. Reading between the lines, the answer is not completely reassuring.

The Basle committee proposes to transform the capital requirements that were introduced in 1988, when regulators from G10 countries agreed that banks were woefully under-capitalised: a conclusion duly confirmed by banking crises in America, Europe and Japan. The regulators aimed to force banks to hold adequate capital, yet their notion of adequacy was simplistic. It assumed that the ratio of a bank's capital to its loans would reveal whether its capital was sufficient. Though the original 1988 Basle standards were a step towards risk-based capital, with riskier loans requiring more capital to be set in reserve, the definition of risk bore too crude a relation to the actual riskiness of banks' assets.

Basle required banks to hold capital equal to at least 8% of their risk-weighted loans to the non-bank private sector. Government debt from OECD countries required no capital, because these supposedly bore no credit risk. Non-OECD sovereign debt had some capital requirements, but fewer than for any private-sector loans. Loans between banks also entailed modest capital requirements.

The assumption, crudely, was that a bank with less than 8% in capital reserves was under-capitalised, and one with more than 8% probably had capital to spare. Nowadays, nobody thinks about bank soundness in such a simple manner. With the use of derivatives, a bank with an 8% ratio of capital to loans can get rid of credit risk (ie, the risk that a borrower will stop repaying the interest or the principal of a loan), and thus end up with capital to spare. Or it might increase its exposure to credit, and thus have not enough. Likewise, a bank might reduce the loans it has on its balance sheet by securitising them. Yet potentially the bank may still be exposed to much of those loans' credit risk.

Securitisation and the more active management of loans are clearly in fashion. Banks used to make loans and keep these on their books until they were repaid. Or, if things went wrong, the loans were written off. Now, banks increasingly look to pass on the credit risk of the loans they originate, preferring to book only the loan-origination fees. In theory, this should shift much of the credit risk of loans away from banks and on to investors in securitised loans. In reality, things are not so simple. Depending on how loans are securitised, much of the credit risk may remain with the originating bank, and to an extent that can be fiendishly hard for anyone, regulators included, to discover.

Well-run banks do not need regulators to tell them to keep capital in reserve against credit risk: prudence in the long run plumps their profits. Those big banks leading the charge to securitisation have developed risk-management systems with the sophistication, they hope, to tell them how much capital to set aside. This has made it glaringly clear both to these banks and to their regulators that the regulatory capital demanded of a bank often bears scant relation to what a prudent bank manager would choose to hold in reserve.

Regulators have also seen how the existing Basle rules created perverse incentives that encouraged excessive risk-taking by banks. For instance, Basle's crude measures of classifying risk meant that banks had to put aside less capital against a loan made to the government of a banana republic than to a blue-chip company like General Electric. Equally, lending to a company with a just-less-than-top-notch credit rating required no more capital to be set aside than a loan to a near-junk-status firm.

Pillars of the community

In June 1999 the Basle committee issued proposals for capital requirements that reflected the true credit risk of loans. These were sound on principle, but weak on detail. Since then, regulators and banks have devoted much energy to fleshing out the details. The resulting heap of documents released on January 16th was weighty indeed. A final round of consultation will end in May, and the new rules will take effect by 2004.

There are to be three pillars: a minimum capital requirement, regulatory supervision and disclosure. Banks will be able to choose among different methods of measuring credit risk. At one extreme is a much-improved version of the existing approach. There are many more categories of risk, which allow for the possibility, for instance, that a loan to a company from a developing country is less risky than a loan to that country's government. Certain approved banks will be able to use their own, sophisticated credit-rating systems, which attribute to each loan a default risk based on historic data. There are detailed new rules on how to assess the riskiness of securitisation, and on how much the risk attached to a loan is reduced when it is backed by collateral. There is a powerful incentive, namely lower capital requirements, to use internal ratings systems, though some banks complain that the carrot is not as big as it could be. Regulators remain wary about seemingly sophisticated risk-modelling. They intend to monitor models' performance before relying too heavily upon them.

Similar, unspoken worries may lie behind a new requirement to set aside capital against "operational risk", such as the possibility of losses because of computer failure, poor documentation or fraud. Some big banks reckon this will simply allow regulators to impose unjustified capital requirements should the use of internal credit-rating models mean too sharp a reduction in the capital at a particular bank or, indeed, a reduction in the banking system as a whole.

In the end, though, the fate of the new Basle rules will depend on how they are implemented. American and British regulators are likely to be vigorous enforcers, while Japan and Germany, as well as plenty of less-developed countries, will lag behind. Certainly, the new proposals leave national regulators plenty of room to wiggle. Even the best regulators can be seduced by those over whom they are supposed to watch.

So the third pillar of the new proposals may well be crucial: market discipline through disclosure. This is supposed to include details of how a bank's internal ratings system is working. If they live up to the Basle committee's claims, disclosure rules should allow investors to throw their weight behind regulatory efforts to keep banks safe and sound. The information now available to investors tells them little that is useful about the riskiness of a bank's lending. The burden lies with regulators, and with rating agencies such as Moody's Investors Service and Standard & Poor's. Given the poor performance of both of these in predicting banking crises in the past, any sunshine that disinfects banks' inner workings has to be welcome.

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About sponsorship

European share trading

Nothing settled

Jan 18th 2001
From The Economist print edition

LAST year the goal of a pan-European equity market looked in sight. Stock exchanges from all over the continent had agreed mergers. Those left on the sidelines were talking intensely with each other. Crucially, the expensive and fragmented business of clearing and settlement also looked as if it was at last going to be rationalised. But the dismal truth today is that most of these plans have come to naught.

This is perplexing. Everybody agrees that the costs of cross-border share trading in Europe need to be brought down to American levels, which are one-tenth as high. The European Securities Forum, a lobby group of Europe's biggest banks, set out a sensible plan to achieve this goal. It saw sense in the idea of a pan-European stock exchange. It also recognised that most of the costs of European trading are incurred in the "back office", in the business of clearing and settling trades, ensuring that the transfer of share ownership happens smoothly. It reckoned that a Europe-wide central counterparty (CCP) for clearing equities would save a cool *euro*1 billion ($950m) a year.

A CCP is an intermediary that acts as "a seller to all buyers and a buyer to all sellers." By standing in the middle of all trades, it allows investment banks to "net" purchases against sales, slashing the number of transactions that have to be settled, along with the amount of capital that banks need to back the business. But unfortunately a European CCP has now gone the way of a European stock exchange.

A year ago the picture looked so much brighter. Last March the Paris bourse merged with its smaller neighbours in Belgium and the Netherlands, to form Euronext. The enlarged exchange, in turn, made approaches to the London Stock Exchange (LSE). These were rebuffed by the LSE in favour of a merger with the Deutsche Börse, a combination to be called "iX" that for a while appeared to have a fighting chance of becoming the long-predicted European stock exchange. The Spanish and Italian bourses wanted to join. And America's Nasdaq wished to form an alliance with iX to create a giant market for high-growth companies. Yet within weeks the LSE's smaller shareholders were revolting. The deal collapsed acrimoniously in September, even as the LSE faced down a bid from Sweden's OM Gruppen, which runs the much smaller Stockholm stock exchange.

As all this was going on, Europe's clearing and settlement houses (a dozen-plus) also recognised the case for consolidation. But since consolidating meant voting themselves out of business, progress was slow. Cedel, one of Europe's two international bond-clearing houses, had in 1999 merged with Deutsche Börse Clearing, to form Clearstream. The Paris bourse's settlement arm, Sicovam, was meant to join this merger, but it defected to Cedel's rival, Euroclear, after a quarrel over ownership stakes.

Early last year the London Clearing House, which clears transactions for the London International Financial Futures and Options Exchange (Liffe) and some smaller derivatives exchanges, unveiled a merger with Clearnet, which clears French futures and equities. When the London Stock Exchange and the Deutsche Börse agreed to merge, they said they would set up a CCP for equities. A nationalist spat then erupted over who should run it: the London Clearing House, which is independent, or Eurex Clearing, half-owned by Deutsche Börse. This scuppered the London Clearing House's merger with Clearnet. Instead, it opened talks with Eurex Clearing.

At the time of the iX deal both Clearstream and Crest, the British paperless settlement monopoly, agreed to slash the cost of cross-border deals between them by nine-tenths. But this, too, has been abandoned. Clearstream generates huge revenues for Deutsche Börse and forms an important part of the bourse's forthcoming flotation.

In the background, the European Securities Forum tried to persuade the London Clearing House, Clearnet and Eurex Clearing to form a single European CCP. After this ran aground in October, the forum said it would build a CCP by itself—a wild idea. The forum is a tiny operation run out of borrowed offices by Pen

Kent, a former director of the Bank of England. A CCP would have required immense amounts of capital that the forum lacked, as well as deep technical expertise. Besides, Europe needs less capital devoted to clearing, not more. Within two months, Mr Kent had abandoned this plan; he is now, once again, trying to persuade the three existing clearers to merge.

But the decisions by both Euronext and Deutsche Börse to seek flotations in the next few months make this unlikely. In the short term, they cannot engage in any serious discussions without disclosing them in their respective flotation prospectuses. In the longer run, the offerings reinforce the national integration of trading, clearing and settlement. Besides, those members of the securities forum that argue for pan-European trading, such as Goldman Sachs, Deutsche Bank and ABN Amro, are taking the exchanges' shilling to advise on their flotations.

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Asian bonds

Safe harbour?

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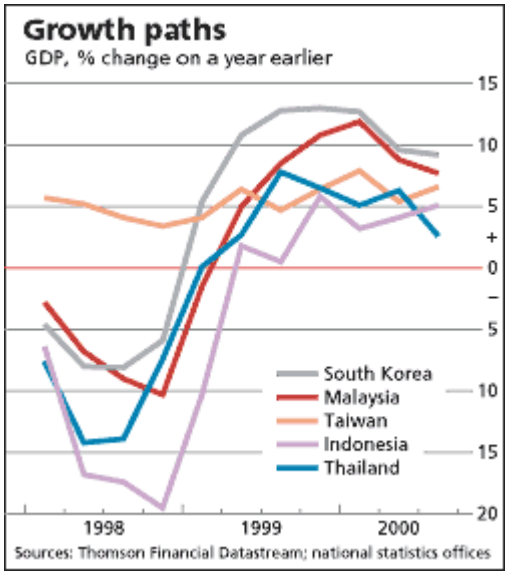
AMONG the well-disguised blessings that financial disaster supposedly brought to Asia were bigger and better bond markets. The governments of South Korea, Malaysia and Thailand, three of the countries worst hit by the financial collapse of 1997-98, all borrowed heavily to pay for bank bail-outs. The result, it was hoped, would be deeper, more liquid financial markets, which would provide a home for the region's savings, as well as a new source of capital for its companies. This year growth prospects are fading, in line with the expected slowdown in America. So one might hope that those new markets will come into their own, as investors look for shelter. Certainly, some regional economists are touting the virtues of bonds. But many investors remain wary.

For this, blame politics as much as economics. In both respects, the bad news continues to accumulate. Exports, which have powered much of the recovery over the past two years, are slowing sharply, as the world economy splutters. Outside China, domestic demand shows few signs of picking up the slack. In one or two countries, analysts are even beginning to mutter the "R" word: although they are still expected to achieve decent year-on-year growth, South Korea and Taiwan may even suffer a consecutive two-quarter decline in GDP.



It is in precisely this kind of gloomy environment that bonds might be expected to flourish. As growth tapers off, inflationary pressures stop building, making credit-worthy bonds look more attractive. In America, for example, there has been a sharp rally in bond prices. But in most of Asia, such a rally has yet to occur.

South Korea is an exception. There, investors have snapped up both government bonds and those issued by government-backed outfits, such as the Korean Development Bank. Rising bond prices have brought yields down by three percentage points over the past few months. Some regional economists, such as Bernhard Eschweiler, at J.P. Morgan in Singapore, believe that the same economic trends should boost bonds in other countries, such as Singapore and Thailand, where yields remain high. Mr Eschweiler especially likes Thai bonds. He argues that, as Thai consumers grow cautious, they will spend less and save more with the banks, which will be driven to invest their deposits in the bond markets.

In a report issued earlier this month, Deutsche Bank also praised the merits of Asian bonds. It argued that a slowdown would do little damage to the credit standing of many of the region's governments. That is not so true, however, of countries where political worries dominate the equation. In the Philippines, the messy impeachment trial of the president (see article) has driven the peso to record lows.

The list of politically troubled countries is now long. All but the most stalwart investors have already fled Indonesia. And in Thailand, Thaksin Shinawatra, the incoming prime minister, has promised a raft of new programmes to help farmers and to deal with corporate debt. Since the government is already heavily indebted, many analysts expect his promises to prompt credit-rating agencies to downgrade Thailand, pushing bond prices down.

In Malaysia, the credit risks are not quite so alarming. But foreigners still face mild restrictions on their ability to invest in the country. Many economists also believe that the government, which has kept the country's currency, the ringgit, pegged to the dollar since August 1998, might devalue at some point next year. For investors in long-term bonds, that is certainly soon enough to worry about.

Meanwhile, in South Korea, which has a solid credit rating, renewed efforts to bail out the *chaebol*, family-controlled conglomerates, should help to keep government-bond yields higher than they might be. Even there, much of the effort put into developing those new bond markets is thwarted by the region's formidable political problems.

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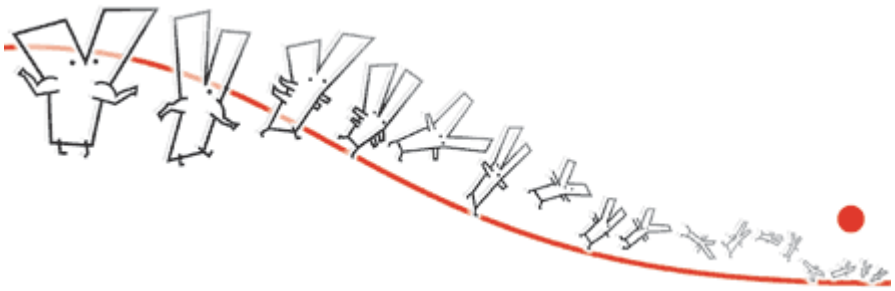
Economics focus

The only way out?

Jan 18th 2001
From The Economist print edition



A weaker yen would probably be in the interest of both Japan and America—at least in the short term

FROM its low point in October, the euro has risen by almost 15% against the dollar, as a gloomier view of America's prospects has taken hold. At a meeting of finance ministers in Japan last weekend, several European policymakers predicted that the euro could soon regain parity with the dollar. Why then, even as the euro has been bouncing, has the yen been falling against the dollar?

Early this week it hit an 18-month low of ¥119.35 to the dollar, before recovering slightly. This seems puzzling. Forecasts of America's growth relative to Japan's have been reduced in recent months. Several American banks, including Goldman Sachs and Morgan Stanley Dean Witter, now expect America's GDP to contract in the first quarter of this year. Moreover, while Japan has a big current-account surplus, America's deficit continues to widen.

One explanation for the divergent paths of the euro and the yen may be that, whereas the euro has until recently been undervalued against the dollar by most measures, the yen has been overvalued relative to its "fair" value, which many economists put at around ¥120. Moreover, although America's economic prospects may look less rosy than they did, investors are also fretting that Japan's recovery (feeble as it was) is also faltering. Revised figures are expected to show that Japan's GDP fell in the third quarter of 2000, and stalled in the fourth. Share prices have tumbled, renewing fears about the fragility of Japanese banks.

Worse still, although Japan's GDP has been growing in real terms, on a year-on-year basis, ever since the recession of 1998, nominal GDP has been shrinking, thanks to price deflation. This is a disease more deadly than high inflation. Falling prices keep real interest rates too high; they make consumers delay spending; and they cause the real burden of public and corporate debt to swell.

Public debt has already reached 120% of GDP. The future path of that ratio depends on two factors: the size of the primary budget deficit (ie, excluding interest payments), and the gap between interest rates and the growth of nominal GDP. The bigger the primary deficit, the higher the nominalgrowth-rate needed simply to keep the debt-to-GDP ratio stable. The grim news is that Japan's primary deficit is a horrendous 5% of GDP; in contrast, every other big industrial economy currently has a primary surplus. Even grimmer: nominal GDP growth, being negative, is well below the level of interest rates. So long as deflation continues, Japan's debt-to-GDP ratio will rise sharply.

A yen for action

Japan urgently needs to rid itself of deflation and get the economy growing faster. But, awkwardly, policymakers are running out of tools. The government's huge debt limits the scope for further fiscal

reflation. There is little room to cut interest rates, since the Bank of Japan's overnight call rate is only 0.25%. The third popularly prescribed remedy for Japan's malaise is structural reform. Quite right: but even if fully implemented today, the benefits would take years to come through.

However, the Bank of Japan is not totally powerless. Its interest-rate tool may be severely blunted, but it can still use monetary policy to push down the yen further, by printing lots of money (or, more accurately, by buying government bonds) and by buying dollars. Because a central bank can in theory print unlimited amounts of its own currency, intervention to push down an exchange rate is more effective than intervention to push it up.

The Bank of Japan insists that, with interest rates close to zero, monetary policy is already lax. But the relative strength of the yen until late 2000 was in fact a symptom of an overly tight monetary policy. According to calculations by Goldman Sachs, an index of overall monetary conditions that takes into account not only interest rates but also the yen's rise (from ¥147 to the dollar in August 1998 to an average of ¥108 in 2000) shows that Japan experienced a sharper monetary tightening than did America's overheating economy. No wonder Japan's recovery looks shaky.

The Bank of Japan worries that "monetising" government debt, as many outsiders are urging, would push up bond yields by creating expectations of higher inflation. But expectations of a bit of inflation— as opposed to continuing deflation—are just what Japan needs right now. A cheaper yen would also boost growth by spurring net exports, while combating deflation by pushing up prices.

Critics worry that a weak yen will blunt the incentive for Japanese firms to undergo the restructuring that is essential for long-term recovery. But in the short term, the priority must be to rid the economy of deflation. Another objection to a cheaper yen is that it might fuel protectionism in America, especially as the economy slows down. It would certainly have been better if the yen had been weaker when the American economy was still booming. Yet, at least in the short term, a depreciation of the yen could be to the advantage of America as well as Japan.

The dollar is likely to continue to slide against the euro, but a wider slump in the dollar against all currencies would be more troublesome. It could make it harder for the Federal Reserve to cut interest rates to support the American economy. A fall in the dollar against the euro, but a rise against the yen, is probably a good compromise. In the longer term, once (if) Japan's economy gets back on track, America's bulging current-account deficit is likely to drag the dollar back down against the yen.

The Bank of Japan, which proudly guards the independence it won in 1998, has rejected calls for more radical monetary easing. Yet it does not deserve to stay independent if it fails in the main duty of a central bank: to pursue price stability. That means preventing prices not only from rising too fast, but also from falling.

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About sponsorship

Equitable Life

The blame game

Jan 18th 2001
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Recriminations continue over the troubles of Equitable Life, the world's oldest life insurer. This article assesses the blame for the affair; another looks at the troubled outlook for the entire industry

AT THE start of 2000, Equitable Life stood at the pinnacle of the British life-insurance industry. Its clients included not just self-employed professionals saving for their retirement, but also more than half of Britain's top 100 companies. By the end of the year, a succession of body-blows had brought Equitable to its knees. The world's oldest mutual life insurer announced that it was closing its books to new business, and that existing policyholders in its main "with-profits" fund should expect lower returns.

Now come the recriminations, along with the predictable clamour for compensation. This week Richard Ottaway, the opposition Conservative Party's Treasury spokesman, asked whether the government would provide compensation for policyholders who acted on the Treasury's guidance when it regulated the industry in 1998. The House of Commons Treasury select committee announced that it will hold an inquiry into the regulatory implications of the Equitable Life affair. Its hearings will be trawled for evidence supporting compensation claims.

The cause of Equitable's troubles lay in 90,000 policies written mainly in the high-inflation era of the late 1970s and early 1980s. These contracts contained a time-bomb: guarantees of the rates at which policyholders could turn their share of Equitable's "with-profits" fund into annuities when they retired. When the policies were issued, these guaranteed annuity rates (GAR) were so far below market annuity rates, which are linked to long-term interest rates, that they seemed worthless. Yet when interest rates sank in the late 1990s, they offered annuities a quarter higher than market rates.

From 1994 Equitable sought to nullify the value and the potential cost of these guarantees. That became the subject of a court case that went up to the House of Lords. Last July five law lords unanimously ruled that Equitable's earlier pledges must be honoured in full. Equitable met the estimated £1.5 billion ($2.25 billion) by freezing the value of all policies in the with-profits fund for seven months—in effect, taking from those policyholders without guarantees to pay for those that had them. It put itself up for sale, but in December the last potential buyer pulled out. Equitable then stopped taking new customers and told existing clients that future returns would be up to a percentage-point lower a year, as it switched from equities to lower-return, but less risky, government bonds.

While fault must lie in the first instance with Equitable Life's directors, the big beasts now being stalked in the blame game are the regulators—the Department of Trade and Industry until 1997, the Treasury in 1998, and the Financial Services Authority (FSA) from 1999. Why did these regulators fail to spot the potential exposure of Equitable's with-profits fund to the GAR pledges when they were initially written, and why was nothing done when these options first went "into the money" in the early 1990s? Why, too, was Equitable allowed to present two quite different faces to the world as the problem became more serious in the late 1990s?

The company accounts for 1998 and 1999, sent to policyholders, showed provisions for GAR liabilities of just £200m. Last spring Equitable told its members that it expected the cost of the GAR policies was "unlikely to exceed £50m in total over the coming years". But the statutory returns submitted by Equitable to the regulator showed that £1.5 billion had been set aside to provide for possible GAR liabilities, half of it met through a reinsurance policy. This followed an instruction from the regulators to the whole life-insurance industry to reserve adequately for possible GAR liabilities.

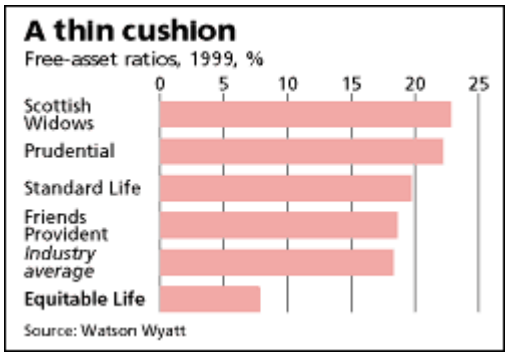
Equitable Life explains the disparity by saying that the accounts and the returns are prepared on a different basis. It argues that the company accounts employed more realistic assumptions—based on

Equitable's belief in its interpretation of the law—whereas the statutory returns required more reserves against potential risks. Both Equitable and its regulators say that the House of Lords' judgment was a surprise that changed everything.

But some say that it is absurd to depict the law lords' judgment as a bolt from the blue. "The legal position had not been established, so this was a speculative view of what the courts would decide," says Richard Dale, a specialist on financial regulation at Southampton University. He describes the company's legal strategy over the guaranteed annuities as "very dodgy". As for the regulators, he says "it would be better to have no regulation than a regulatory framework that allows this to happen." Sir Gordon Downey, a former regulator who chaired the Personal Investment Authority, bought a with-profits annuity from Equitable. He says "I wouldn't have bought an annuity if I'd known of the existence of this huge contingent liability."

A contrary view is that Equitable's policyholders must accept their share of the blame for disregarding the risks of saving with a life insurer that ran such slim reserves. This allowed higher payouts, but meant there was less of a capital buffer should anything go badly wrong. Equitable Life's "free-asset" ratio, a measure of capital strength, was well below the industry average at the end of 1999 (see table).

Equitable hopes to announce an early sale of everything bar the with-profits fund, including its highly rated sales force. So far, relatively few people have quit the with-profits fund. But there remains the danger of a self-fulfilling downward spiral of confidence. If the GAR liabilities swell—which will occur if long-term interest rates fall further—the incentive for non-GAR policyholders to bail out of the with-profits fund will rise, despite a 10% penalty.



The action group representing GAR policyholders is prepared to reach a deal that would cap the liabilities, but this will prove hard to achieve in practice. The FSA is itself quietly trying to broker a deal. It knows that, as long as its difficulties remain unresolved, Equitable Life will continue undermining confidence in life savings in Britain.

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About sponsorship

British life insurance

Low life

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THE Equitable Life fiasco is the last thing British life insurers need. Nearly all of Equitable's peers are under pressure from falling interest rates, new regulation, and policyholders demanding more transparency. There is worse to come. Ned Cazalet, an independent analyst, says that British life insurers may have to find £12 billion ($18 billion) this year because of tougher rules forcing them to increase their reserves against the risk that policyholders cash in policies early. And there are concerns that a choppy stockmarket and a shortage of less risky gilts (government bonds) to invest in will drive down the returns insurers can offer their policyholders.

Until recently, life insurance has been a successful industry in Britain. It has become less of a provider of cover against death, and more a vehicle for saving, especially for retirement. There are several attractions to this market. The population is greying, and the government wants many more Britons to save privately for their retirement. Stakeholder pensions, a scheme backed by the government, will be launched this April. This should mean more business for life-insurance companies.

Still, the industry has growing problems, some of them self-inflicted. As investors have become more sophisticated, life products have started to lose their appeal. Fee structures on policies are often opaque, with early years' contributions mostly going not into investments, but to pay commissions. Investors are increasingly aware that if they "surrender" (ie, cash in) a policy early, accrued capital gains are not paid out in full, or not paid at all. These people would have been better off putting their savings in a bank, while those (usually better-off) policyholders who hang on profit at their expense—a dignified Ponzi scheme, as one regulator terms it.

The Equitable Life affair has exposed the lack of transparency in "with-profits" policies, as well as the difficulty of sustaining some guaranteed schemes. And the tax advantages that once lured people to take out life policies have now gone. Life-insurance premium relief was abolished in 1984. The tax credit on dividends has also gone for pension saving.

Unsurprisingly, the industry shows signs of strain. Over the past few years, many mutual insurers have been forced to demutualise by policyholders eager for the cash windfalls that come with such a transformation. Stronger life insurers have been buying weaker ones. Even before the problems at Equitable Life emerged, some small companies, such as Reliance Mutual, had to close for new business.

Investment managers offering unit trusts (mutual funds) are the main beneficiaries of the industry's malaise. Unit trusts are easier to understand and more flexible than life-insurance products. Today about one in ten British adults has invested in some form of unit trust, a big increase over the past decade. In the same period, the proportion of households with life-insurance policies has fallen.

Will all insurers go the Equitable route? Certainly not. Equitable was hit uniquely hard by the cost of meeting the guaranteed annuity rates because it operated on slim capital reserves. Most new life-insurance policies are also "unit-linked" ("variable" in American): that is, their returns go up and down with the market.

Life insurers are starting to tread on the turf of investment managers—a more aggressive business than old-world life insurance. Insurers are having to hone their investment-management skills if they are to compete in this new environment.

Moreover, size increasingly matters. A critical mass will be needed to make running the new stakeholder pensions profitable. The sales networks and capital of giants like Prudential count increasingly against the smaller fry. The quest for size is making British insurers think about the continental model of *bancassurance*, where banks sell insurance and other savings products through their branches. On

January 16th Legal & General, a large British life insurer, announced a partnership to sell policies through Barclays, Britain's fourth-largest bank. Though Barclays may now abandon the products of its own that it sells, this tie-up suggests there may be life yet in this beleaguered industry.

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The World Bank

A quiet, Stern voice

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NICK STERN is no Joe Stiglitz—but that may be no bad thing. Mr Stern's management style and demeanour are poles apart from those of the man he replaced last July as chief economist of the World Bank. But where Mr Stiglitz's barnstorming left as many sworn enemies as fans, Mr Stern, a quiet activist, might more successfully further the interests of developing countries.

Mr Stiglitz made his name as an academic with brilliant theories on the economics of information. He then made his name again at the World Bank, by challenging the "Washington consensus", which he defined as seeing macroeconomic stability and trade liberalisation as ends in themselves. Instead, Mr Stiglitz laid emphasis on three by-products, as he saw them, of favourable economic conditions: democracy, sustainability and equality. In spreading this message, Mr Stiglitz stepped on many toes in Washington (not least those of the International Monetary Fund) and abroad. And he neglected his administrative duties. He resigned from the World Bank before his first term as chief economist had ended.

Mr Stern's vision is different. His buzzwords are opportunity, empowerment and security. These, he argues, will help to reduce poverty. They will go some way towards achieving Mr Stiglitz's wished-for outcomes, yet democracy, sustainability and equality are not preconditions for their attainment. Rather, they are possible ends that "empowered" people might choose. Mr Stern is a fan of Amartya Sen, the Nobel-prize-winning economist and philosopher who thinks about social justice, and is unabashed about scolding rich countries for their protectionism, especially in agriculture. He calls protectionism "a rip-off of the rich consumers, a rip-off of rich-country taxpayers, and intensely damaging to the poor of the world".

Far from shrinking from his administrative responsibilities, Mr Stern has enlarged them, asking for involvement in all of the Bank's four main areas: strategy, operations, research and communications. Mr Stiglitz was mainly interested only in the latter two areas. Mr Stern had been chief economist at the European Bank for Reconstruction and Development, after running an institute at the London School of Economics.

In his first few months, Mr Stern has taken his ideas to some of the Bank's bigger clients, including Brazil, Argentina, South Africa, India and Indonesia. It is a challenge to win the support of these countries, since their politicians and non-governmental organisations still resent the Bank's role in recent years. But in some ways, Mr Stiglitz has made his successor's job easier. Mr Stiglitz's fiery opposition, shared in many poor countries, to the "Washington consensus" may prove a foil for Mr Stern's more inclusive approach.

To focus first on the biggest among the poor economies was deliberate. Since the four dominant powers of America, Canada, Europe and Japan (the so-called Quad) failed to show leadership at the trade summit in Seattle in late 1999, Mr Stern wants to see a new group of developing economies blaze a trail in multilateral issues. The key task in development, in Mr Stern's opinion, is to open up the Quad's markets.

That will not be easy. The Bank's own research shows how the Quad's recent efforts to cut some of the steepest tariffs that the poorest countries face—tariffs that are close to 100% on manufacturing and farm products—will not necessarily solve the problem, since non-tariff barriers can be just as harmful. The challenge, says Mr Stern, is a political one: to disabuse the rich-world foes of liberalisation. Simply, the benefits of trade must be patiently explained.

Under Mr Stern's leadership, the research arm of the Bank is laying some of the educational groundwork. It has begun, for the first time, to calculate the real cost to poor countries of tariffs, anti-dumping duties and non-tariff barriers in rich markets. Scrapping peak tariffs could lead to an increase of $2.5 billion in

exports from “least-developed” countries, for instance—hardly enough to faze competitors in the Quad, but an 11% improvement for the exporters. Adding in the rest of the world, and considering other barriers such as excessively rigid country-of-origin rules (applied mostly to textiles), the potential gains could be $100 billion a year.

Yet some bigger developing countries—that is, those that Mr Stern looks to for new leadership—are nearly as much at fault as the Quad. After all, two-fifths of developing countries’ exports are to other poor countries, so poor-country protectionism brings harm, too. At the moment, for instance, India and Mexico are trying to fend off cheap imports from China. Eventually, Mr Stern will have to bring the spirit of inclusiveness to his criticisms, too.

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About sponsorship

Microelectronics grows up

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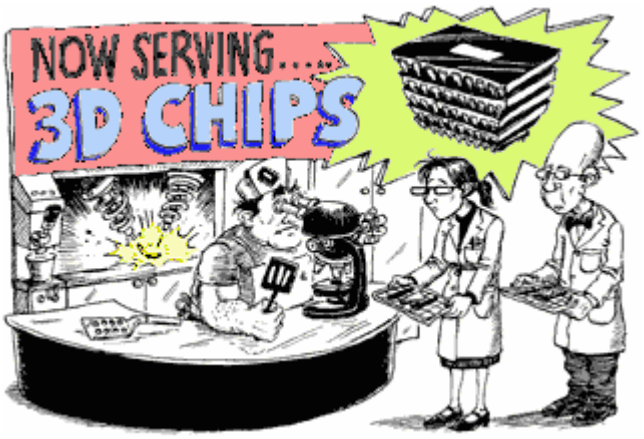

Existing methods of making microelectronic components are essentially two-dimensional. But a third dimension will soon be added

CUT through a computer chip and you will reveal something that looks like a microscopic layer cake. Chips are built up a piece at a time by a process called microlithography. This involves repeatedly depositing stuff on the chip's surface and then etching part of it away to leave the transistors and other devices that do the actual computing. The process is time-consuming and error-prone. Even if there is a 99% chance that an individual layer will be deposited and etched without a mistake, only 90% of ten-layer chips will be usable. Add another ten layers and the figure drops to 82%.

On top of this, microengineering's requirements are increasing. There is rising demand for so-called micromechanical devices, which have moving parts built on to the chip. These frequently require undercuts and rotating elements that can be hard, or even impossible, to make using conventional microlithography. And pure microelectronics is now gradually giving way to optoelectronics, which uses photons (the particles of light) as well as electrons to carry data. Some optoelectronic processes need devices that have significant thickness, as well as length and breadth. If these were built by conventional methods, they would need hundreds, rather than dozens, of layers. That would make the error rate enormous, and the time involved prohibitive.

These optoelectronic devices also require not just microfabrication (which creates components with dimensions measured in microns, or millionths of a metre), but nanofabrication (where the components are nanometres, or billionths of a metre, across). The hunt is therefore on for ways to build a new generation of "thick" three-dimensional (3D) components in a single step, preferably using nanofabrication. Three research groups, employing three different methods, are now on the case.

One-step wonders

The most straightforward approach is that of Shoji Maruo and Koji Ikuta, at Nagoya University in Japan. They have taken an existing technique called stereolithography, and miniaturised it. Stereolithography works by steering laser beams through a photosensitive liquid that solidifies when it is exposed to enough light. One way to control this process is to use two beams that, when they cross, double the amount of light in a spot, and thus cause the liquid to solidify faster. When this scanning is complete, the 3D structure is released by pouring out the remaining liquid.

The problem with stereolithography for small things is that the liquid tends to solidify even when it is not at the most intense part of the beam. To get round this, Dr Maruo and Dr Ikuta picked a material whose molecules solidify only when hit simultaneously by two photons from different lasers.

Using this technique, the two researchers have managed to build 3D structures with features as small as a wavelength of light (a few hundred nanometres). Electronic and optical applications are restricted by the properties of the material used, but there should be jobs to do in micromechanics. At a microelectromechanical systems conference that is taking place at Interlaken, Switzerland, from January 21st-25th, the researchers will describe their latest creations, which include moving microparts that are driven by light.

At Oxford University, meanwhile, Andrew Turberfield and Bob Denning are using crossed laser beams to create so-called photonic crystals. These are employed to trap photons so that they can be exploited efficiently in, for example, low-power lasers. They consist of two interlaced materials that have different optical properties—in particular, different refractive indices, a measure of how much a substance bends light. The boundaries between the materials create reflective surfaces within the crystal. These can be used to shepherd photons around and keep them under control. Such crystals might serve as components of optical switches which would, among other things, fulfill the role played by transistors in conventional electronics.

In order to make a photonic crystal, though, the materials have to be organised into structures no more than a wavelength of light apart. And layer upon layer of such organisation is required. The technique that Dr Turberfield and Dr Denning are using to do this has several stages. First, a block of material whose chemistry can be altered by light is made. Four laser beams are shone into this block from different directions. Where the beams overlap, they interfere with one another. This is because, in the wacky world of quantum physics, light is wavy as well as particulate. Where the crests or troughs of the waves of two or more beams coincide, bright spots are created; where a crest falls on a trough, a dark spot results.

The material responds to the pattern of spots, undergoing chemical changes at the bright ones. The block is then bathed in a liquid that dissolves the chemically altered part of the material in a way reminiscent of conventional microlithography, while leaving the rest intact. If the second material of the crystal is intended to be air, that is enough. Otherwise, it can be bathed in a liquified form of the second material until all of the voids created by the laser are filled in.

A third approach to 3D nanofabrication is being pioneered by a collaboration between Jun-ichi Fujita at NEC's Fundamental Research Laboratories and Fujio Shimizu of the University of Tokyo. In this case, too, interference patterns are the tool of choice. However, it is not waves of light that are made to interfere with one another, but waves of matter.

Just as light can be thought of as both particles and waves, so can atoms. This means that holograms—3D "photographs" usually made with light—can, in principle, be made with atoms. And making a 3D structure at the atomic scale is what nanofabrication is about.

In conventional holography, two beams of light interfere with one another. One beam is reflected from the object that is having its picture taken; the other is a "clean" reference beam. When the two meet, the interference pattern produced, if captured on photographic film, has the ability to change a new reference beam into a new object beam. Thus an image of the object can be reconstructed in light.

Since holography was invented in 1948, there have been two major developments in the field. The first was the realisation that a hologram could be synthesised mathematically in a similar way to the process used to generate computer graphics. It does not, in other words, need to be the image of an actual object. The second was the realisation that holograms do not have to be recorded on film. In the right circumstances, they can be created by manipulating the refractive indices of materials in the way that Dr Turberfield and Dr Denning are doing. Or, in the case of beams of atoms, by manipulating electric fields to achieve the same effect.

Dr Fujita and Dr Shimizu have combined these two advances to create a holographic projection system for beams of atoms. By passing such beams through a screen of tiny electrodes that act as holographic "pixels" (the equivalents of the grains in photographic film) a 3D image, in atoms, of the desired object can be built up. If the structure is too complicated to create using a single hologram, then the pattern of charge on the electrodes can be changed to add extra features.

This system, which is still in its earliest stages, has several drawbacks: not least, that not all atoms can easily be patterned in this way, and that the whole process has to take place at very low temperatures. But if it could eventually be industrialised, it would be a triumphant demonstration that even the weirdest scientific arcana can sometimes have practical applications.

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Wireless communications

More bandwidth for your buck

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New research shows how telecoms companies might be able to deliver more information, at a faster speed, over the same airwaves

THE wireless industry is growing fast, but consumer expectations are growing even faster. People want their modems to work more speedily and their mobile-phone reception to be clearer. Yet there is only so much the industry can do, for it is limited by the capacity of the radio spectrum to carry data. Now, however, the industry may be in luck, for workers at Bell Labs, the research arm of Lucent Technologies, have found a way to increase that capacity sixfold.

A typical mobile-phone antenna receives one channel of information, and that information takes up a certain amount of spectrum (or "bandwidth", as it is known in the trade). The more bandwidth such signals occupy, the more data they can carry; but the fewer signals can be sent. So companies have to compromise between the number of signals they transmit, and the bandwidth of each signal.

One partial solution to the problem is to exploit polarisation. That involves dividing the radio wave carrying a signal into two components, one of which vibrates up and down, while the other moves from side to side. Each can carry a separate message, although the system requires that both transmitter and receiver have two antennae.

When nothing interferes with them, the radio waves used by mobile phones travel in a straight line (known as a "line of sight"). In areas where there is a long line of sight, exploiting polarisation works well. In a city, though, buildings get in the way and cause the signals to scatter. The task of distinguishing the two polarised signals from each other is then too hard, because the different versions of the two components of the signals are coming at you from all directions.

What is a problem for some, though, is an opportunity for others. A paper in this week's *Nature* by Mike Andrews and Partha Mitra, who work at Bell Labs, and Robert deCarvalho of Harvard University, shows that adding a third antenna to the formula can exploit the complexity caused by scattering, rather than simply suffering it.

Radio waves are a form of electromagnetic radiation. In a line-of-sight signal, the electric and magnetic components of the wave travel at right angles to one another. That means only two states of polarisation are possible. But scattering means that various versions of the same signal arrive at the receiver at different angles, so that there are lots of different combinations of the electric and magnetic components. That, in turn, allows six polarisation states to be distinguished—three of the electric component, and three of the magnetic one.

The consequence is that adding a third antenna to both the transmitter and the receiver permits each electric polarisation state to be used to carry a signal. If a suitable antenna could be devised, the same would be true of the three magnetic components, creating six channels in all. To demonstrate that this idea is not pie-in-the-sky, the team built a prototype sensitive to the electric components. They used it to transmit an image of a Joan Miró painting, sending the red, green and blue parts of the picture simultaneously via different polarisation states.

Proving a principle is not, of course, the same as industrialising it, and many obstacles remain—not least, that the tripole antenna the team came up with is a particularly awkward shape, which would not fit easily into a mobile telephone or any other wireless device. Also, the possibility of increasing the antenna's transmission power by the researchers' sixfold claim rests on the ability to create a magnetic tripole that could work alongside the electric one. That would raise some technical problems, due to interference between the two antennae, and has not yet been tried. Nonetheless, many physicists agree

that the new antenna is a simple, yet particularly clever idea. Plucking something out of the air, as it were.

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Engine technology

Fuel's paradise

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CARS, like many people, have difficulty getting up in the morning. With cars, however, the problem is not laziness, but temperature. A cold engine cannot evaporate petrol sufficiently fast to work properly, so a vehicle may stutter and surge when it starts, as it gasps for fuel. Now Ronald Matthews, a mechanical engineer at the University of Texas at Austin, thinks he has the answer. And, as a bonus, his invention will make cars cleaner, too.

When it is cold, only the more volatile components of petrol are available to burn. Even at a temperature of 25°C—a balmy spring day—only a quarter of the petrol injected into an engine vaporises, and the proportion falls at lower temperatures. That is why chokes exist: they overfuel the motor so that enough vapour is there for it to run. But the non-volatile components drop into the intake manifold, causing a great deal of pollution. Some 80% of this type of exhaust pollution, known as unburned hydrocarbons, is emitted in the first few minutes of an engine's operation. The solution, says Dr Matthews, is to get the car itself to separate and save the volatile parts of fuel and then use them to start the engine.

His miniature, on-board oil refinery, designed to do just that, weighs about 2kg. It consists of a column packed with stainless-steel wool into which petrol is drawn at a temperature of 50°C once the engine compartment has warmed up. The volatile components of the petrol evaporate—a process assisted by the huge surface area provided by the wire wool. The vapour is then sucked out of the column, recondensed, and stored in a small back-up fuel tank, whence it is drawn the next time the car is started from cold. The heavier components, which remain liquid, are fed back into the main fuel tank and burned in the normal way when the engine has thoroughly warmed up.

Dr Matthews had the idea for his system three years ago. He was working with some students on an engineering competition called the Ethanol Vehicle Challenge, in which competitors sought to develop technologies to deal with alternative fuels. Dr Matthews's team was given a mixture called E85 (85% ethanol and 15% petrol) that is particularly hard to use on a cold start because it won't evaporate. The distillation system was invented to solve this problem. But Dr Matthews realised that it would work for petrol-driven engines as well, and that it would also reduce emissions, possibly by as much as a half. Besides the direct benefit of burning fuel more completely, the engine—and thus the catalytic converter—would also heat up to their operating temperatures faster.

The on-board distillation unit is so interesting that Ford has supported the patent application and is now funding further research into the idea. This month, a Ford Lincoln Navigator will arrive in Dr Matthews's laboratory to be fitted with the system and tested for performance and cost-effectiveness. On the laboratory bench, the price of the unit's materials is about $400, but Ford's engineers think they could mass-produce it for as little as $60.

Ford is now evaluating a number of new technologies that are designed to reduce emissions. Each has its own problems. But on-board distillation offers one advantage over the competition—improved performance, especially in cooler climates. It is easy to imagine some motorists giving the cold shoulder to something that merely reduces pollution. But a car that starts like a dream, and happens to be greener and cleaner as well? That really would be hot news.

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A successful rip-off

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AS EVERY schoolboy knows, insects pollinate flowers, while birds and mammals disperse seeds by eating fruits or transporting burs on their feathers and fur. These are examples of co-evolution, a phenomenon first described by Charles Darwin in “The Descent of Man, and Selection in Relation to Sex”, published in 1871.

Looking for lunch

Co-evolution, in which two species have evolved together in response to adaptations that each has imposed on the other, can be extremely subtle. For instance, some animals may help to transfer pollen from one plant to another without acting directly as the carrier themselves. Instead, they make it easier for the pollen to be dispersed by other creatures. Mats Olsson and Richard Shine, of the University of Sydney, and Elisabeth Bak-Olsson, of the University of Gothenburg in Sweden, have discovered, apparently for the first time, such a mutually beneficial arrangement between a reptile and a plant.

For most of the year the Tasmanian snow skink—a lizard confined to mountain tops in that island—is catholic in what it eats. But when the honey-bush is in bloom, the skinks make a point of tearing off the tough, red petals that enclose the rest of the flower. They chew them to extract the nectar and spit out what is left. At first sight, this skink-savaging may not seem all that helpful to the honey-bush. But it is. It exposes the reproductive parts of the flowers, thereby allowing pollinating insects to get at them. Dr Olsson and his colleagues found that flowers with the petals left intact never produced seed. But, according to their paper in the *Biological Journal of the Linnean Society*, 87% of flowers with the petals torn off did so.

To check that it was the skinks alone that were the plants’ little helpers, the researchers placed cages around some honey-bushes. Virtually all of the petals were removed from the flowers on bushes without cages. Only 16% of the caged bushes had their petals ripped off, possibly by high winds battering them.

Dr Olsson found no evidence of pollen being carried on a skink and so concluded that the lizards play no role in transporting honey-bush pollen from one flower to another. But he did see a range of insects—wasps, flies, bumblebees and others—feeding from honey-bush flowers that had no petals covering them. Without the petals removed, it was impossible for insects to do any pollinating.

Why did the honey-bush evolve such a complicated procedure for its pollination? Dr Olsson thinks the answer lies in upland Tasmania’s awful—and unpredictable—weather. It is only worthwhile for insect-pollinated plants to open their flowers when the air is warm enough for insects to be flying. Most plants outside the tropics rely on the predictability of seasonal weather to achieve this.

The honey-bush employs the cold-blooded lizards as its thermometers instead. The snow skink needs warm, sunny weather to become active, so the honey-bush’s petals are torn off only in such weather. The bush and the skink have thus co-evolved to help each other. In effect, the plants use hired help, paying in nectar for the lizard’s labour.

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Mysterious Molière

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Molière the playwright is a familiar figure, but almost nothing is known about the man. This presents a particular challenge to his biographers

MOLIÃˆRE: A THEATRICAL LIFE
By Virginia Scott

Cambridge University Press; 334 pages; $54.95 and £35

Buy it at
Amazon.com
Amazon.co.uk

Mary Evans

AMONG the considerable number of men dedicated to the task of keeping Louis XIV entertained, several met bizarre ends. In 1671 at Chantilly, the great chef Vatel, after providing the king and some 2,000 courtiers with three superb meals on the first day of their visit, killed himself on the next, when a consignment of fish he had ordered failed to appear. (It turned up shortly thereafter.) Jean-Baptiste Lully, in charge of music for all the royal festivities, managed to stab himself in the foot with his conductor's baton while directing a performance of one of his own works in 1687; he died soon afterwards when gangrene set in.

Nothing, however, quite equals the death of Jean-Baptiste Poquelin, the self-styled *sieur de Molière*, a man established by 1672 as actor/manager and chief playwright of *la troupe du roi*, performing at the Palais Royal in Paris and much in demand at court. "But might it not be a bit dangerous to counterfeit death?" Molière, as Argan, the hypochondriac protagonist of his last comedy, "Le Malade Imaginaire", enquired, when about to do just that, during the play's fourth performance on February 17th, 1673. "No, no," the maid Toinette reassured him, "what danger could there be?" But Molière did, in fact, die: not actually on stage—though he finished Argan's part with considerable difficulty—but an hour or two later at home. Predictably, in a strictly Catholic France where actors were excommunicated and refused burial in consecrated ground (though churchmen patronised the theatre and wrote plays themselves), the usual dour moral lessons were drawn.

The stage chair in which Molière as Argan was stricken in earnest, not in jest, can still be seen on permanent display in the upper lobby of the Comédie Française—the theatre which, in effect, he founded. It is, apart from the plays themselves and their prefaces, almost the only tangible relic of a man much written about by friends and enemies during and immediately after his lifetime, who nevertheless remains in many ways mysterious, despite endlessly proliferating scholarly and critical research. Virginia Scott, author of the latest attempt at a biography, is well aware of the difficulties. No one can disentangle legend from fact, fiction from truth—not even in the brief life attached to the collected edition of Molière's works produced by his associate La Grange in 1682, or in the 1705 biography by Grimarest. Molière himself left no letters, no diaries, no memoirs. None of the various houses in which he is said to have lived remains, nor do any of his personal possessions. Not only do his contemporaries provide ambiguous and conflicting reports, but the basic facts are wanting. Shakespeareans may complain about a certain paucity of information, but at least they know where their man was buried and whom he married. Molièristes do not.

Ms Scott is engagingly candid about her biographical method. "My agenda is to express those intersections between myself and the past that I experience imaginatively...I order what I know or believe I know so as to create characters—whom I choose to call Molière and Madeleine—who could have

made with some degree of probability the choices I believe the real Molière and Madeleine to have made." So she is free to decide that Armande Béjart, the teenager Molière married in 1662, was indeed the daughter of his former mistress Madeleine Béjart by the Comte de Modène, rather than her youngest sister. (But not, as some of his enemies suggested, also Molière's own daughter.) As to where and when the respectable Jean-Baptiste Poquelin first met the distinctly bohemian Madeleine, and how he was drawn away from the solid family upholstery business into the theatre, she does not pretend to offer more than speculation. Like everyone who writes about Molière, Ms Scott combs the plays themselves for clues about his private life and comes up with suggestions that may or may not be right. Most innovative of all, perhaps, is her hypothesis that Molière's relationship with his young protégé Baron was homoerotic—though even that was hinted at by the more malicious of his contemporaries.

The last biography of Molière published in English, John Palmer's "Molière" (1930; reprinted in 1970), is still worth reading. To compare it, however, with Ms Scott's is to realise how enormously attitudes have changed during the intervening years. Nervous even about Molière's illicit relationship with Madeleine, Palmer could not bring himself to say more than that "probably" they had an affair. Over Baron's possibly sexual appeal to Molière he maintained total silence. Also very much of its period was his slight regard for that improvised Italian theatre which provided Molière with many dramatic types, and his contempt for lavish baroque spectacle of the kind that Louis XIV loved and on which Molière "wasted" his talents. The *ballet de cour* and *comédies-ballets* are now regarded with far more interest and respect than was the case in 1930 (as indeed are the court masques that Ben Jonson and Inigo Jones created for James I). Both the delicious "Le Bourgeois Gentilhomme" and "Le Malade Imaginaire" are, after all, *comédies-ballets*—a category that a more flexible 21st-century idea of theatre can once again accommodate.

Ms Scott provides valuable correctives here. The strength of her book (as might be expected from the author of "The Commedia dell'Arte in Paris", 1990) lies less in its portrait of Molière himself than in the densely researched and persuasive background against which she is able to situate him. This is made up of families and places (she is particularly good on the 13 years during which Molière and his troupe wandered the French provinces before returning to Paris), while also including portraits of his enemies, as well as eminent friends such as Boileau, La Fontaine and Racine. She does not offer much in the way of commentary on the plays themselves. What she does do is arrestingly illuminate the complex world of theatre and court, both in Paris and elsewhere, that finally constitutes almost all that can really be known of Molière's life.

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Gastronomy

Experimental

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THE SCIENCE OF COOKING
By Peter Barham

Springer; 252 pages; £19.95 and $34.95

Buy it at
Amazon.com
Amazon.co.uk

YOU do not have to be a chemist or a physicist to cook a meal, any more than you need a qualification in engineering to drive a car; but in both cases a little technical knowledge can help when things go wrong. That is the reasoning behind this odd volume that combines an explanation of the scientific principles of cooking with a down-to-earth guide to kitchen utensils ("every kitchen needs a liberal supply of cutlery"), some experiments to try at home and a random collection of around 40 recipes.

You learn why potatoes become translucent when they are boiled, and impenetrable equations are devised to calculate the cooking time for eggs. There is a sprinkling of useful tips: for instance, the best way to work out how long to roast a joint of meat in the oven is to measure it, not weigh it; and sifting flour is generally a waste of time. That said, you might be wiser not to let your children try the wilder experiments on their own: one involves placing a lightbulb in the microwave, another boiling water in a balloon over a naked flame.

The recipes, most of them overlong, are quite basic. They start with simple grilled steak, through roast lamb and poultry to stews, fish, sauces, bread, cakes and cooking with chocolate. Interspersed are some (very) quick-reference charts for solving problems. Meat overcooked and tough? "Either the oven temperature was too high, or the cooking time was too long." Well, yes. Disappointingly, Mr Barham, who teaches physics at Bristol University, makes no reference to the nutritional value of the food we eat—an aspect of cooking where a scientist might be thought to have something to contribute. And, apart from potatoes, vegetables are ignored.

Given that the book comes from an international publisher based in Germany, it is surprising that the recipes have such an unmistakably British flavour. It is true that the author indulges himself with a Mexican savoury chocolate sauce to go with chicken, but that is an exception. Black Forest gateau, which appears to be his speciality, is more often sighted in Bristol than in Baden-Baden. And surely only a British cook would make hot water pastry for a pork and chicken pie.

Gastronomy is an art. If it were merely a science, this book would contain most of what you need to know to rustle up a palatable meal in the kitchen, or indeed the laboratory. But then if sculpture were a science, any half-decent stonemason could have chiselled Michelangelo's David. Should a scientist ask you to dinner, find out who's going to cook.

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About sponsorship

Good sport

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IS IT possible to follow science as though it were a spectator sport? Frederik Pohl, a veteran science-fiction author, certainly thinks so, for he has spent much of his life visiting sites of scientific interest—both to research his books, and also out of simple curiosity. Many such destinations are worth visiting for other reasons too: as well as being pleasant places to go on holiday, Iceland, Hawaii and the Greek island of Santorini all demonstrate, for example, the influence of vulcanism on island formation. Or at least that, one assumes, is what Mr Pohl probably told his accountant.

“Chasing Science: Science as Spectator Sport” (Tor Books; $23.95) flits lightheartedly from continent to continent, mixing travelogue with gentle scientific explanation. This unusual approach gives Mr Pohl the freedom to delve into an extraordinarily diverse range of topics, including the operation of neutrino observatories, the physics of rainbows, the principles of plate tectonics, and how to search for fossils in your office’s marble lobby. It is all good fun, yet among the anecdotes and curious facts the science content is deceptively high. And along the way Mr Pohl makes a serious point.

Just as it is not necessary to be an athlete to appreciate sport, his book suggests, it is not necessary to be a scientific expert to appreciate science. By pointing out where science protrudes most visibly into the world, Mr Pohl’s aim is to demonstrate that it is not some abstract activity, but is instead ubiquitous. At the same time, science is also nowhere in particular; it is just a matter of looking at the world (or the sea, or the sky) in the right way. In his global survey, in other words, Mr Pohl entertainingly demonstrates that science is, in the end, a world view.

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Britain's mandate in Palestine

To have and to hold

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THE present uprising in Palestine is often called the second *intifada*, to distinguish it from the one that exploded in the late 1980s. It is really the third. Between 1936 and 1939, the Arabs of Palestine rebelled so violently against British rule and Jewish settlement that they drove government forces to evacuate Beersheba and Jericho, and put Haifa under siege. The British regained control in the usual way—by means of torture, the bombing of villages into rubble and many executions. But they did not expect peace to last. General Montgomery, who was brought in to suppress the revolt, observed at the end of the conflict that "the Jew murders the Arab and the Arabs murder the Jew. This is what is going on in Palestine now. And it will go on for the next 50 years in all probability."

By then, Britain had run Palestine for more than 20 years, having captured it from the Turks in 1917 and accepted a League of Nations mandate to govern the country and help the Jews establish a national home. Lord Balfour, Britain's foreign secretary, had already promised the Jews a national home in Palestine—though not, he insisted, by compromising the civil and religious rights of "the non-Jewish communities" there. This was a pretty heroic undertaking, given that almost all of Palestine's population was Arab at that time. But Britain had complex motives for making its impossible promise. Part of it was idealism; part a pretext for grabbing Palestine; part also an attempt to exploit what politicians such as Lloyd George took to be the mysterious power of world Jewry. Many influential figures in Britain thought that the Jews controlled the world, an illusion which Chaim Weizmann, the Zionist leader, worked assiduously to sustain.

ONE PALESTINE, COMPLETE: JEWS AND ARABS UNDER THE BRITISH MANDATE
By Tom Segev

Metropolitan Books; 624 pages; $35.
Little, Brown; £25.

Buy it at
Amazon.com
Amazon.co.uk

PLOUGHING SAND: BRITISH RULE IN PALESTINE 1917-1948
By Naomi Shepherd

Rutgers University Press; 300 pages; $28.
John Murray; £20

Buy it at
Amazon.com
Amazon.co.uk

Both Tom Segev and Naomi Shepherd acknowledge that the political history of the mandate has been thoroughly investigated. Both are journalists, not scholars; they focus less on Britain's imperial calculations than on what life in Palestine was like during the 31 years of British rule. The Palestine that emerges as Jewish and Arab nationalism collided is a mixture of glamour, violence and intrigue—together with a great deal of muddle on the part of the colonial officials about what Britain was trying to achieve.

Ms Shepherd's book is the shorter and more lucid; Mr Segev's the richer in personal anecdote. One of the many tales he weaves into his narrative tracks the relationship between two Jerusalemites: Khalil al-Sakakini, a Christian Arab and a teacher; and Alter Levine, a Jewish insurance agent, who knocked on his neighbour's door one night seeking protection from the Turkish authorities, who suspected him of being a spy. The Arab reluctantly took in the Jew, which led them both to prison in Damascus, and to a friendship forever clouded by the conflict between their two peoples.

Mr Segev is weaker when he ventures to make bigger historical judgments, such as the novel claim that it was the Arab revolt before the second world war, rather than that of the more powerful and more desperate Jews after it, which made Britain give up on Palestine. The British abandoned the two peoples, to whom they had made irreconcilable promises, to settle their quarrel by war. As David Ben Gurion, the pre-eminent Jewish leader in Palestine, said as early as 1919: "Everybody sees the problem in relations between the Jews and Arabs. But not everybody sees that there's no solution to it."

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About sponsorship

Fiction from Latin America

Enigmas

Jan 18th 2001
From The Economist print edition

Bewildered by the news, readers in Latin America often turn to fiction to understand their countries' politics

EL RESPLANDOR DE LA MADERA.
By Hector Aguilar Camin.
Alfaguara; 470 pages; $18

CIRCUS.
By Julio Llinas.
Grupo Editorial Norma; 271 pages; $19

LOS IMPACIENTES.
By Gonzalo Garces.
Editorial Seix Barral; 218 pages; 2,000 pesetas

LA FIESTA DEL CHIVO
By Mario Vargas Llosa

Alfaguara; 518 pages; 3,200 pesetas

Buy it at
Amazon.com
Amazon.co.uk

LA NOVIA OSCURA
By Laura Restrepo

Grupo Editorial Norma; 465 pages; 2,900 pesetas

Buy it at
Amazon.com

AS JOURNALIST, novelist and politician, Mario Vargas Llosa has packed a lot into his 64 years. He has run for president in his native Peru; he has opposed the corrupt authoritarianism of its fugitive ex-leader, Alberto Fujimori; and he has written more than a dozen novels, almost all of them about this enigmatic country, from Piura to Lima and Iquitos, piecing together its classes and races in a jigsaw recreation.

But as a character in one of these fine books glumly remarks, nobody has ever got to grips with Peru. And so in his latest novel, "La Fiesta del Chivo" (The Feast of the Goat) Mr Vargas Llosa turns to a different enigma, the Dominican Republic. He anatomises Rafael Trujillo, the dictator who ran the country from 1930 until his assassination in 1961. Most of the characters are taken from life, and Mr Vargas Llosa has captured the dictator and his supporters so well that the book has caused scandal and embarrassment in Santo Domingo.

Although he is not a fine stylist, few writers can match Mr Vargas Llosa for story-telling. His words serve the unfolding plot. A middle-aged lawyer, Urania, returns to her native island from New York with a secret that is kept from readers until the end; Trujillo's assassins are introduced to us, and reminisce a great deal. But the dictator lurks behind every word, every thought: a disciplined and obsessive tyrant, whose enemies include dissidents, the Catholic church, Castro, the Organisation of American States and American liberals. We are shown the network of fawners and favour-seekers, the nepotism, the spies, the sexual conquests, the maniacal cleanliness and the *macho* stare, but we also read about Trujillo's incontinence and impotence. For all his awfulness, people admire this power-hungry *chivo*, and in the nub of the novel an out-of-favour minister sacrifices Urania, his daughter, to the strongman. Complicity, Mr Vargas Llosa seems to be saying, is much to blame for Latin America's authoritarian curse.

One-party rule in formally democratic Mexico came to an end last year with the election of Vicente Fox as president. To the changing country that Mr Fox inherits, Hector Aguilar Camin, a former editor of *Nexos*,

a political weekly, is a good fictional guide. In “El Resplandor de la Madera” (The Lustre of Wood), he describes the ups-and-downs of a timber dynasty from the tropical state of Quintana Roo. This old-fashioned novel contrasts an epic frontier past with present-day Mexico city. Its main character is another *machista* who rises to power in the corrupt world of politics and business, following his impulses and getting rid of everyone in his way. Complete with bodyguards, blind loyalties and sexual caprices, this is a strong, if derivative, novel whose complaints about the powerful are hard at times to distinguish from admiration.

In Colombia, the imagination is regularly outstripped by events. Even Gabriel Garcia Marquez turned to reportage to describe a Bogota besieged by drug gangs, death squads and guerrilla armies. In her fifth novel, “La Novia Oscura” (The Dark Bride), Laura Restrepo employs a journalist (herself) as the narrator. By means of interviews and reminiscences she pieces together the lives of a charismatic whore, Sayonara, her fellow sex-workers in the red-light district of La Catunga in Tora and the men of the Tropical Oil Company in the Colombian jungle. Ms Restrepo’s treatment of her whores slips into sentimentality, but she manages to invest her off-the-map Colombia with a certain believable dignity.

With comic flair, Julio Llinas’s novel “Circus” deflates Argentina’s illusions of grandeur in the face of last year’s economic crisis. It is narrated by a burnt-out advertising agent, also called Llinas, who gives up a lucrative but soulless job in Buenos Aires to set up an “authentic” farm run on traditional principles (real gauchos, old *pampa* breeds of livestock). His aim is to attract tourists from the city, but the kitschy farm fails miserably. As a quixotic poet who abandons his day job in search of a better society, Llinas is a well-drawn comic character. The novel makes fun of stressed-out city types who long for the outdoor life but acknowledges at the same time the appeal of the countryside and its larger-than-life characters.

Gonzalo Garces, another Argentine, tackles Buenos Aires head on. “Los Impacientes” (The Impatient Ones), his second novel, which won Spain’s Premio Biblioteca Breve last year, tells of adolescent loves and betrayals. The setting is a recognisable Buenos Aires in the 1990s, where opportunities for aspiring young artists are limited. The narrator, himself a writer, escapes to Paris, where he reflects on what he sees as the dreary future of an ever more philistine country. This semi-autobiographical novel could so easily have been a spoiled and unpleasant whine. What saves it is that the Argentine capital keeps an underground hold on the Parisian exile. The novel conveys the heavy nocturnal atmosphere of Buenos Aires in a dense, at times pretentious, style that also reflects the isolation of its characters.

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Musical biography

Bing back the memories

Jan 18th 2001
From The Economist print edition

BING CROSBY had “ears like a taxi with both doors open” and “a behind like the side of a barn”. He almost always wore a hat, and his shoes had two-inch lifts—a well-kept secret. Despite his nonchalance, Crosby was concerned about his appearance and he wore his watch on the inside of his wrist because he believed it made his hands look less pudgy. The huskiness in that astonishing voice may have been partly due to a node on his vocal chords; certainly when Lloyd’s of London insured it for $100,000 they included a clause forbidding him from having surgery to remove it.

BING CROSBY: A POCKETFUL OF DREAMS. THE EARLY YEARS, 1903-1940
By Gary Giddins

Little, Brown; 720 pages; $30 and £29.50

Buy it at
Amazon.com
Amazon.co.uk

Yet his achievements were extraordinary. This working-class Catholic boy from Washington state scored 396 charted records. The two singers who trailed him, Paul Whiteman and Frank Sinatra, could chalk up only 220 and 209 respectively. He topped the list of number one hits with 38; the Beatles are second with 27. He appeared on some 4,000 radio broadcasts (mostly live) and was voted Hollywood’s top attraction five times over.

Even more significant than the statistics is the acknowledged debt that other singers owe to Bing. While he claimed his musical style descended from Bessie Smith, Ethel Walters, Al Jolson and Louis Armstrong (three of them black and one, Jolson, who blacked his face), many more recent singers owed their style to Crosby. Sinatra, aged 17, saw him perform at Jersey City and determined on a musical career. Dean Martin, Perry Como and Peggy Lee honed their talents by imitating his recordings.

Despite the jazz influences, his repertory ranged widely including parlour ballads, Irish songs (his ancestors, of course, were Irish), and Broadway standards, although his best numbers were those which called for intimacy, an impeccable swing and a wide range from a low E flat to a top F. His was a virile voice in an age of effeminate singers, and his appeal was both to women, who found him irresistible, and to men, for whom he was a good sport. Besides golf, he also counted baseball, swimming and backgammon among his accomplishments. When put to it he could even manage a couple of balletic *entrechats*.

A paragon, you might think. Well, not according to “Bing Crosby: the Hollow Man” (1981), by Donald Shepherd and Robert Slatzer, and “Going My Own Way” (1983), a savage memoir by his alcoholic son, Gary. But Gary Giddins, a biographer of Louis Armstrong and Charlie Parker, is on a retrieving mission, and his Bing is a wisecracking charmer, secretively generous, professional, insouciant and sophisticated. Some 300,000 words take the reader up to the “Road” films with Bob Hope and Dorothy Lamour, and one is promised as much again. Whether Crosby is important enough for such tireless research you must judge for yourself. You will also have to wait and see whether Mr Giddins remains so persuasively hagiographic during the family quarrels ahead.

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Crossword prize-winners

Jan 18th 2001
From The Economist print edition

THE solutions to Johnson's youth-and-age crossword, the first of the millennium, poured in from all over the world, but especially from New Zealand. Ireland too contributed more than its share of successful solvers; and indeed Iceland, even if that means only one, and he of evidently Anglo-Saxon descent. Sea air must be good for the brain.

Alas, to win a prize means having luck as well, and these islanders did not have it. A fine four-volume, leather-bound 1816 edition of Boswell's life of the real Johnson goes to Tom Miles, of, by happy accident, London itself, the great dictionary maker's home. PlayStation 2, the prize aimed at youth, goes appropriately to a winner in a younger city: David Malon, of Naperville, Illinois.

Or, at least, it will go once Sony has it ready to be sent to him. And we pledge that wild cookies shall not drag from us the name, let alone URL, of the software oracle who, opting for the Boswell were he to win, added that he "wouldn't know what to do" with a PlayStation. A man after the modern Johnson's own heart.

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Australian fiction

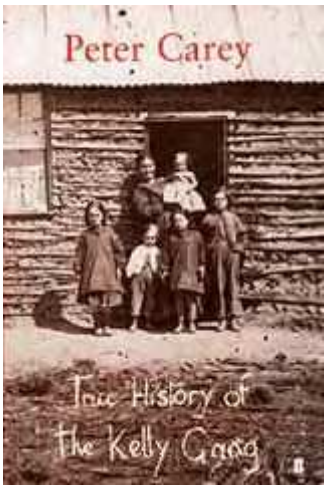
A wizard from Oz

Jan 18th 2001
From The Economist print edition

True History of the Kelly Gang
By Peter Carey and Peter Carey;

Faber; £16.99
Knopf; $25

Buy it at
Amazon.com
Amazon.co.uk



PETER CAREY'S "True History of the Kelly Gang" is not really a true history. Rather, it is a dazzling imaginative re-creation of the life of a bushranger and Australian folk hero, Ned Kelly. It takes the form of an apologia, written by Ned for the future benefit of his (wholly fictitious) daughter.

The Kellys, like other poor Irish families in the colony's early years, are relentlessly persecuted by the police, or "traps" as they are known. Ned's father, a former convict, is a broken man. His mother is loving and protective but is nevertheless instrumental in getting her son started in a life of crime. Ned is repeatedly betrayed by his closest friends and relatives. He struggles to be a good and honest fellow. But as Mr Carey tells it there is a gloomy inevitability to his progress from the cradle to the scaffold.

The point of no return was reached in 1877 when Ned and his younger brother were accused of attempting to murder a policeman. They fled into the bush of north-eastern Victoria. Two friends joined them at their hideout. The gang remained at large for almost two years, eluding the "traps" and robbing banks when they needed to top up their coffers. Their luck ran out in the township of Glenrowan on June 29th, 1880. They were hopelessly outnumbered by armed policemen. Ned's brother and accomplices were either shot or burned alive. Protected by his famous home-made bulletproof armour, Ned himself survived the shoot-out, only to be hanged at Melbourne jail a few months later. He was 25.

All this is narrated with great flair in prose that is heavy on expletives and light on punctuation—yet full of music and poetry. Ned is wonderfully alive to the world around him. He remembers his first brush with the fearsome Sir Redmond Barry, the judge who would eventually hang him: "I seen his wig and his bright red robes and he were a Cardinal to my eyes his skin all white and waxy as if he were a precious foreign object kept contained in cotton wool." He marvels with unfeigned innocence at the way a sock will "turn the corner at the heel" and delights in the snug fit of an elastic-sided leather boot, "soft and supple as a lady's glove".

Ned's acute sense of injury and injustice is everywhere apparent. In the end he emerges as an oddly eloquent spokesman for all those Australians who have known "the terror of the unyielding law" and "the historic memory of UNFAIRNESS". Mr Carey has found a completely convincing voice for his hero. In so doing he has rescued the doughty bushranger from caricature and cliché. "True History of the Kelly Gang" gives us instead a fully rounded character that we can believe in and—his obvious failings notwithstanding—sympathise with wholeheartedly.

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Iran observed

Not obvious

Jan 18th 2001
From The Economist print edition

IRAN has nearly 10% of the world's known oil and the second biggest gas reserves. It has a rich culture and an illustrious past. But it remains widely misrepresented and little understood by the general public. Why this should be is perfectly obvious. In 1979, a revolution turned a corrupt, westernising monarchy into an Islamic republic; America's embassy was taken over and the United States, with some cause, stigmatised Iran as a "rogue" state. Iran's reputation was never so bad in Europe as it was among Americans, and the demonisation of Iraq's Saddam Hussein helped Iran's rulers look less troublesome. The choice of Muhammad Khatami as president four years ago raised hopes that Islamic Iran was changing. Yet influential voices, particularly in America are—or sound—less sanguine.

PERSIAN MIRRORS: THE ELUSIVE FACE OF IRAN
By Elaine Sciolino

Free Press; 414 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

Elaine Sciolino is a respected journalist who has been visiting Iran, and writing about it for *Newsweek* and the *New York Times*, for more than two decades. In the absence of official contact between the two countries, it has fallen to reporters like her to inform Americans and their policy-makers about Iran. In many ways in this book, she does a good job. One of its most fascinating features is its picture of Iranian women, who, despite the restrictions of religious bigotry, often assert their independence with spirit. Ms Sciolino, in general, is a gregarious reporter. In the course of her travels, she finds plenty of people who are willing to tell her what life is like for the average citizen in Iran today. They talk to her about the harsh social and religious policies, about conservative opposition to their recent relaxation, about the open discussion of once-taboo subjects such as theocratic rule, and about the love-hatred that many Iranians feel for the "Great Satan" America.

Ms Sciolino's experiences have shown her that Iranians—like the rest of us?—can be kind and joyful, as well as hypocritical and treacherous. This itself is a welcome step towards greater understanding of a complicated country. Unfortunately, the book does not really go deeper than that, and does not offer much clue to where, politically, Iran is now headed. In a way, this is a mark of her honesty. She has not lived in Iran for any length of time and does not speak fluent Persian. She wisely avoids making any predictions about the ultimate success or otherwise of Mr Khatami's attempts at reform. The road ahead for Iran is not obvious, to Ms Sciolino or anyone else.

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Laurent Kabila

Jan 18th 2001
From The Economist print edition

Laurent Desiré Kabila, failed "liberator"of Congo, died on January 17th, aged 62

Reuters

WHEN Laurent Kabila declared himself president of Congo in May 1997, it must have seemed to him that God loved him after all. After a lifetime of fighting the evil Mobutu Sese Seko he had won, and now had his job. In those days he seemed to wear a permanent smug smile. "My long years of struggle were like spreading fertiliser on a field," he said. "But now it is time to harvest."

Yet some of the fertiliser was pretty smelly and Mr Kabila's struggle was not always as fervent as that of other revolutionaries. Perhaps, as he reflected on God's generosity, he thought of himself more as the prodigal son who was welcomed home notwithstanding his shortcomings. Political philosophy, though, rather than theology, was the stuff of his education. He was born in Katanga province (now Shaba) in south-eastern Congo, then a Belgian colony, and was one of the few Congolese at that time to get an education abroad. He studied in France just as independence was coming to African countries ruled by the Europeans. Stirring times.

Back home, he became a member of the Katanga regional assembly, supporting Congo's nationalist prime minister, Patrice Lumumba, against the pro-western president, Joseph Kasavubu. After Lumumba's murder in 1961 he joined a group in eastern Congo to launch the Simba rebellion, which he saw as a fight against American imperialism.

The rebellion attracted the interest of Cuba's revolutionary leader Ernesto "Che" Guevara, who turned up in Congo with 100 Cuban fighters. In Che's diary, only published in 1999, he notes the lack of organisation in the group and the fighters' belief in magic. Mr Kabila was rarely there. He sent letters promising everything, but delivered nothing. "I no longer believed anything after all these promises," noted the increasingly sceptical Che. "Nothing makes me think he is the man for the situation. He lets the days pass without concerning himself with anything other than political squabbles, and all the signs are that he is too addicted to drink and women."

The brothel and the wine

Had President Yoweri Museveni of Uganda and President Paul Kagame of Rwanda read Guevara's diary when they picked Laurent Kabila as the spokesman for the rebellion they were launching in eastern Congo in 1996, they might have thought again. And there were other pointers to his shortcomings. After the Simba rebellion failed, Mr Kabila turned to smuggling gold and timber on Lake Tanganyika. He ran a brothel and bar in Tanzania and did some petty trading in Uganda. He developed a taste for fine wine and stylish clothes.

He retained one habit from his guerrilla years: ruthlessness. Although he began as spokesman and one of four leaders of the Alliance of Democratic Forces for the Liberation of Congo, he entered Kinshasa as its president. His main rival was killed in a mysterious ambush. Another died later and the third he imprisoned.

The rebellion launched from Rwanda and Uganda was extraordinarily successful. The fighters of the alliance kept walking across Congo (or Zaire as it was then called) in their wellington boots, and Mobutu's soldiers fled before what became a triumphal procession. It was noted that, as the fighters got slimmer, Mr Kabila stayed in the east getting fatter. A diplomat observed that as the area controlled by Mobutu diminished by the day, Mr Kabila seemed to be swelling up as if to fill the whole country. By the time he flew into the capital, Kinshasa, to take over the country, he was twice the man who had announced the

rebellion.

For a while, few Congolese stopped to ask whether their liberator was a dud. All that mattered was that he was not Mobutu. Few political leaders can have come to power with fewer enemies and departed with so many. Expectations were high. The Congolese looked to him to restore the prosperity and dignity of their country. Western countries saw a benign partnership between the new South Africa and a reborn Congo with its untapped wealth which would develop the entire subcontinent. The IMF, the World Bank and individual countries offered aid. Mining houses queued up to lend money in return for concessions in the world's last great untapped source of minerals on land.

In power Mr Kabila quickly showed that he had learned nothing since the days of his Cuban ties, and had forgotten nothing. He spoke the language of the one-party state and tried to control policy, the economy and the people's thoughts. He deeply mistrusted western governments and their financial institutions and companies. Clumsily trying to play one off against another, he alienated them all and after a year of knocking on his door they despaired of ever getting his co-operation, and went away.

Laurent Kabila's legacy to Congo is a civil war in which six other African nations are involved. He has shown little intention to honour an agreement he signed in Lusaka in June 1999, designed to end the war and bring free elections. That infuriated his enemies and alienated his allies. Yet he had the village politician's nous to manoeuvre to save his skin. This week even that skill ran out.

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Economist.com OPINION

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OUTPUT, DEMAND AND JOBS

Jan 18th 2001
From The Economist print edition

America's industrial production fell by 0.6% in December, to give a 12-monthly rise of 3.1%—the slowest for 18 months. France's GDP growth was revised downwards to 3.0% in the year to the third quarter. The number of unemployed (measured by the claimant count) fell slightly in Britain in December, but stayed above a million.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.4	+ 3.3	– 1.5	+ 4.2 Q3*	– 0.8 Q3	6.6 Dec	7.0
Austria	+ 1.2	+ 1.9 Q3	+ 3.4	+ 2.5	na	+ 5.0 Sep*	+ 3.0 Sep	3.2 Nov	3.6
Belgium	+ 1.6	+ 3.1 Q3	+ 3.9	+ 2.8	na	– 0.2 Nov*	+ 6.1 Oct	10.7 Nov*	11.3
Britain	+ 2.8	+ 3.0 Q3	+ 3.0	+ 2.6	– 2.6	+ 0.3 Nov	+ 4.4 Dec	5.3 Nov‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.9	+ 3.0	+ 2.3	+ 5.7 Oct	+ 5.4 Oct	6.8 Dec	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.6	+ 2.1	na	+ 2.6 Oct	+ 0.2 Oct	5.6 Nov	5.4
France	+ 2.3	+ 3.0 Q3	+ 3.2	+ 2.7	+ 4.2	+ 3.3 Oct	– 1.5 Nov	9.2 Nov	10.9
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.5	+ 3.9	+ 4.9 Nov	– 1.7 Oct	9.2 Dec	10.2
Italy	+ 2.4	+ 2.5 Q3	+ 2.6	+ 2.2	+ 1.9	+ 2.4 Nov	– 1.5 Oct	10.5 Jul	11.4
Japan	+ 1.0	+ 1.4 Q3	+ 1.8	+ 1.6	– 3.2	+ 3.3 Nov	– 0.3 Nov	4.8 Nov	4.6
Netherlands	+ 3.2	+ 3.4 Q3	+ 3.9	+ 3.1	– 1.4	+ 2.2 Nov	+ 0.4 Oct	2.6 Dec§	2.7
Spain	+ 2.2	+ 3.9 Q3	+ 4.0	+ 3.2	– 0.5	+ 4.0 Nov	na	13.6 Nov	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.0	+ 3.4	na	+ 8.0 Oct	+ 4.0 Nov	3.9 Nov*	5.2
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.3	na	+ 6.9 Q3*	– 3.3 Nov	1.9 Dec*	2.5
United States	+ 2.2	+ 5.2 Q3	+ 5.1	+ 2.3	– 1.1	+ 3.1 Dec	+ 4.2 Nov	4.0 Dec	4.1
Euro area	+ 2.8	+ 3.4 Q3	+ 3.4	+ 2.9	+ 3.8	+ 3.8 Oct	+ 1.0 Oct	8.8 Nov	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.6 Q3	na	na	+21.5	+17.3 Nov	+ 5.3 Sep	8.7 Nov*	9.4
Greece	na	+ 3.7 1999	na	na	na	– 7.2 Aug	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.1 Nov	1.5
Ireland	+ 5.3	+11.7 Q1	na	na	+31.0	+ 5.2 Jul	+10.6 Oct	3.6 Dec	4.7
Luxembourg	na	+ 7.5 1999	na	na	na	– 1.9 Oct*	+ 7.9 Aug	2.6 Nov	2.8
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 1.7 Q3	5.7 Q3	6.6
Norway	+ 1.3	+ 1.0 Q3	na	na	+ 6.8	– 0.3 Nov	– 0.5 Nov	3.5 Q3	3.3
Portugal	+ 0.8	+ 2.6 Q2	na	na	na	+ 0.8 Nov*	+ 3.4 Sep	3.4 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Sep-Nov; claimant count rate 3.6% in December. §Oct-Dec.

Text refers only to the first 16 countries listed

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COMMODITY PRICE INDEX

Jan 18th 2001
From The Economist print edition

Rubber prices in Tokyo slipped to record lows this month, after Japan's stocks of natural rubber rose by 30% in three months. They now total 73,600 tonnes, the highest for nearly 17 years. At nearly three times normal levels, these stocks (inventories) could take as long as a year to unwind. About 50,000 tonnes are thought to belong to speculators who tried to bid up the market last summer but failed to find end-users for their purchases. Now that prices have fallen to ¥60 (51 cents) a kilo, China, Asia's biggest consumer, might buy. China has recently been a client of the defunct International Natural Rubber Organisation's stockpile. INRO is thought to have sold 60% of its 138,000 tonnes; its goal is to sell 80% by the end of March.

1995=100	Jan 9th	Jan 16th*	% change on one month	% change on one year
Dollar index				
All items	73.0	72.6	– 0.1	– 2.9
Food	73.1	72.0	+ 0.8	+ 0.5
Industrials				
All	72.9	73.4	– 1.2	– 7.0
Nfa†	66.1	66.7	– 0.7	– 6.5
Metals	78.7	79.0	– 1.6	– 7.3
Sterling index				
All items	77.2	77.9	– 0.6	+ 8.2
Food	77.3	77.2	+ 0.3	+ 11.9
Industrials	77.1	78.7	– 1.7	+ 3.6
Euro index				
All items	102.1	101.5	– 5.4	+ 4.4
Food	102.2	100.7	– 4.6	+ 7.9
Industrials	102.0	102.6	– 6.4	– 0.1
Yen index				
All items	90.5	91.0	+ 4.7	+ 8.4
Food	90.6	90.3	+ 5.6	+ 12.2
Industrials	90.4	91.9	+ 3.5	+ 3.8
Gold				
$ per oz	267.40	264.50	– 2.0	– 7.6
Crude oil North Sea Brent				
$ per barrel	24.40	26.00	– 0.2	– 0.7
West Texas Intermediate				
$ per barrel	27.72	30.28	+ 5.5	+ 5.0

* Provisional. † Non-food agriculturals.

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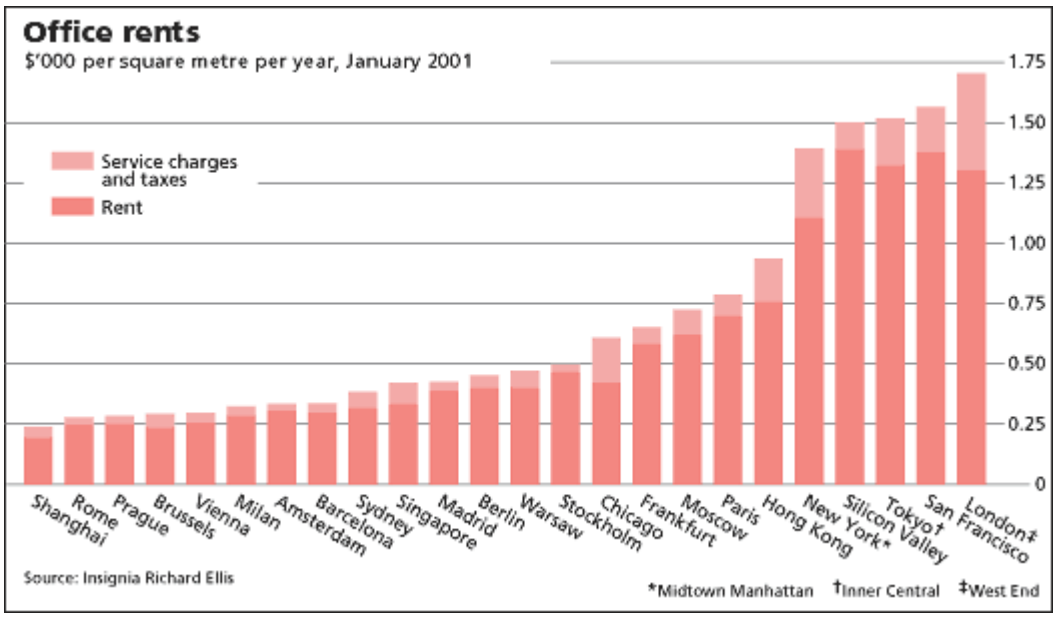
COMMERCIAL PROPERTY

Jan 18th 2001
From The Economist print edition

Office rents and associated charges have risen sharply over the past year in several of the world's top commercial centres. They now breach the $1,000 per-square-metre rate in five cities, up from three in January 2000, according to Insignia Richard Ellis, a property consultancy. Rising accommodation costs reflect both the strength of local economies and the extent to which demand has not been matched by property developers. Total rents have risen by almost a quarter in London, which has been thriving as a financial centre and is now the world's most expensive city. They have almost doubled in Silicon Valley thanks to the boom in information technology. The financial crisis has depressed rents in Tokyo; it dropped from first to third place.



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PRICES AND WAGES

Jan 18th 2001
From The Economist print edition

America's 12-month rate of consumer-price inflation remained at 3.4% in December. However, producer prices were flat (with lower petrol prices being partly offset by a sharp rise in natural-gas prices), trimming the 12-month increase to 3.6%. The pace of wage increases in the euro area slowed to only 1.8% in the year to the third quarter.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+15.8	+ 6.1 Q3	+ 4.6	+ 4.0	+ 8.0	+ 7.2 Q3	+ 8.1	+ 6.8 Q3
Austria	+ 2.3	+ 3.1 Nov	+ 2.1	+ 1.6	+ 4.4	+ 4.4 Dec	+ 0.2	+ 2.0 Oct
Belgium	+ 1.3	+ 2.5 Dec	+ 2.6	+ 2.1	+16.2	+10.0 Nov	+ 3.7	+ 1.6 Q4
Britain	+ 2.5	+ 2.9 Dec	+ 2.4	+ 2.3	+ 1.6	+ 2.4 Dec	+ 5.7	+ 4.4 Nov
Canada	+ 3.9	+ 3.2 Nov	+ 2.7	+ 2.4	+ 5.0	+ 5.2 Nov	+ 2.6	+ 4.1 Oct
Denmark	+ 2.7	+ 2.4 Dec	+ 2.9	+ 2.3	+ 6.8	+ 6.7 Nov	+ 7.0	+ 3.8 Q3
France	+ 1.7	+ 1.6 Dec	+ 1.8	+ 1.6	+ 7.2	+ 5.9 Nov	+ 4.6	+ 5.3 Q3
Germany	+ 0.9	+ 2.2 Dec	+ 1.9	+ 1.6	+ 5.3	+ 5.1 Dec	na	+ 2.0 Oct*
Italy	+ 2.9	+ 2.7 Dec	+ 2.5	+ 2.1	+ 7.0	+ 6.7 Nov	+ 1.9	+ 1.8 Nov*
Japan	+ 0.9	− 0.5 Nov	− 0.7	− 0.4	− 0.1	+ 1.1 Dec	na	nil Nov
Netherlands	+ 3.3	+ 2.9 Dec	+ 2.4	+ 3.1	+10.1	+ 9.0 Nov	+ 3.0	+ 2.9 Nov
Spain	+ 3.4	+ 4.0 Dec	+ 3.4	+ 2.9	+ 6.5	+ 5.7 Nov	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.4 Dec	+ 1.3	+ 1.7	+ 6.6	+ 4.8 Nov	− 4.2	+ 2.9 Oct*
Switzerland	+ 1.9	+ 1.5 Dec	+ 1.7	+ 1.5	+ 1.8	+ 2.2 Dec	na	+ 0.2 1999
United States	+ 2.7	+ 3.4 Dec	+ 3.3	+ 2.6	+ 3.5	+ 3.6 Dec	+ 4.6	+ 4.2 Dec
Euro area	+ 2.5	+ 2.9 Nov	+ 2.3	+ 2.0	+ 7.7	+ 6.3 Nov	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.1	+ 3.5 Dec	na	na	+ 5.4	+ 6.0 Dec	+ 1.3	+ 4.4 Q3*
Greece	+12.6	+ 3.9 Dec	na	na	+13.8	+ 9.0 Nov	na	na
Iceland	+ 4.4	+ 3.5 Jan	na	na	+ 0.9	+ 3.9 Nov	+ 2.8	+ 7.8 Oct
Ireland	+ 5.8	+ 7.0 Nov	na	na	+ 5.8	+ 5.9 Nov	− 5.7	+ 6.1 Q1*
Luxembourg	+ 5.5	+ 3.5 Dec	na	na	+ 1.2	+ 5.2 Oct	+11.7	+ 4.9 Sep*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+16.1	+ 8.0 Q3	+ 1.1	+ 1.5 Q3
Norway	+ 3.7	+ 3.0 Dec	na	na	+ 2.8	+ 3.8 Dec	+ 2.9	+ 3.8 Q3*
Portugal	+ 4.1	+ 3.9 Dec	na	na	+16.0	+16.7 Nov	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Jan 18th 2001
From The Economist print edition

America's narrow-money supply shrank by 3.0% last year. Broad-money growth slowed to 8.6% in the year to December. Japanese narrow-money growth slackened to 4.3% in that month, but broad-money growth picked up to 2.2%.

	Money supply*			Interest rates % p.a. (Jan 17th 2001)							
	% rise on year ago			over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+ 9.9	+ 4.8	Nov	6.25	5.92	5.71	9.00	5.06	5.50	7.25	6.89
Britain	+ 7.2	+ 8.0	Nov	6.59	5.81	6.06	7.00	5.26	4.87	5.79	6.16
Canada	+16.5	+ 7.6	Nov	5.68	5.28	5.09	7.50	5.06	5.42	6.55	7.14
Denmark	na	+ 0.5	Nov	5.20	5.45	3.63	8.00	5.06	5.13	5.84	7.24
Japan	+ 4.3	+ 2.2	Dec	0.24	0.44	0.05	1.50	0.36	1.55	1.72	1.70§
Sweden	+ 4.4	+ 3.4	Nov	4.00	4.06	3.57	4.60	4.17	4.87	5.91	4.54
Switzerland	– 2.6	– 1.1	Nov	3.47	3.41	1.81	5.63	3.28	3.45	3.61	4.38
United States	– 3.0	+ 8.6	Dec	6.00	5.47	5.95	9.50	4.84	5.17	6.87	7.07
Euro area‡	+ 5.0	+ 4.9	Nov	4.76	4.71	3.31	4.55	4.46	4.76	5.51	5.67

†France 4.90, Germany 4.76, Italy 5.20. Benchmarks: Japan No.227 1.59, US 30-yr 5.52. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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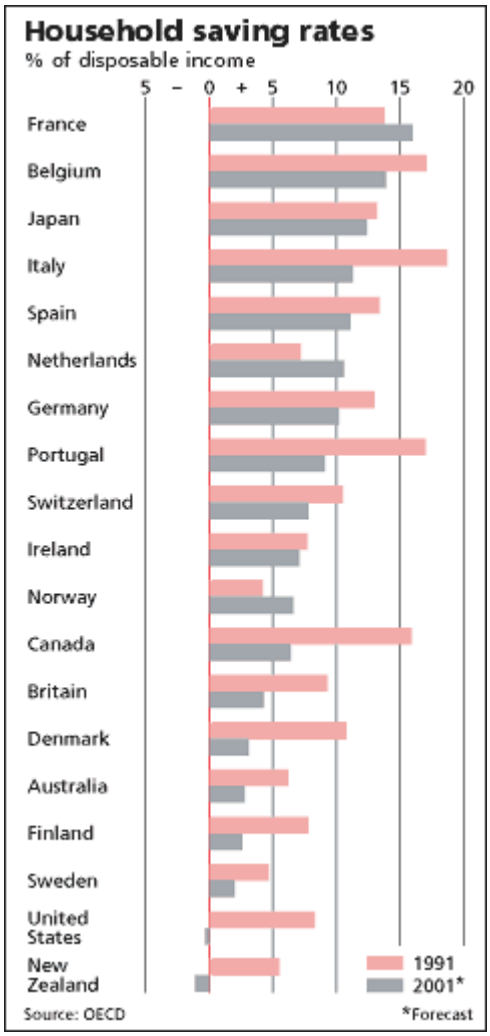
SAVING

Jan 18th 2001
From The Economist print edition

French households are expected to be the thriftiest among rich countries this year. The OECD forecasts that they will save 16% of their after-tax income in 2001, ahead of the 12.4% squirreled away by the famously thrifty Japanese. In contrast, Americans and New Zealanders are expected to spend more than their after-tax income. A decade ago Americans saved 8.3%. This year they could beat the OECD's predictions if they stop making stockmarket gains.



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TRADE, EXCHANGE RATES AND BUDGETS

Jan 18th 2001
From The Economist print edition

In the year to November, Japan's visible-trade surplus narrowed to $120.5 billion, but its current-account surplus widened to $120.0 billion. Denmark's current-account surplus grew to $2.6 billion in the same period. France recorded a small visible-trade surplus in November; its 12-month surplus shrank to $2.9 billion.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget balance % of GDP 2000§
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Jan 17th	year ago	per $ Jan 17th	per $ year ago	per £	per euro	per ¥100	
Australia	− 0.03 Nov	− 5.6	− 17.8 Q3	-4.3	-3.5	74.8	83.5	1.81	1.51	2.67	1.69	1.54	0.9
Austria	− 0.47 Sep§	− 4.0	− 4.6 Oct	-2.6	-2.3	100.5	100.8	14.8	13.6	21.8	13.8	12.59	-1.6
Belgium	+ 1.69 Oct§	+ 13.5	+ 10.3 Sep	4.1	4.0	99.4	99.7	43.4	39.9	63.9	40.3	36.9	-0.1
Britain	− 3.63 Oct	− 43.2	− 16.3 Q3	-1.5	-1.9	104.8	108.8	0.68	0.61	–	0.63	0.58	2.7
Canada	+ 3.02 Oct	+ 32.5	+ 7.7 Q3	1.2	0.6	79.0	80.9	1.51	1.45	2.23	1.41	1.29	2.5
Denmark	+ 0.37 Nov	+ 4.3	+ 2.6 Nov	1.3	1.3	101.9	102.0	8.03	7.37	11.8	7.47	6.83	2.7
France	+ 0.01 Nov	+ 2.9	+ 26.9 Oct	2.3	1.9	102.1	102.7	7.05	6.50	10.4	6.56	6.00	-1.4
Germany	+ 2.22 Nov	+ 52.7	− 29.2 Nov	-1.3	-0.9	99.2	99.7	2.10	1.94	3.10	1.96	1.79	1.4
Italy	+ 0.35 Oct§	+ 2.9	− 3.9 Sep	-0.3	-0.3	72.9	73.3	2,081	1,917	3,065	1,936	1,771	-0.1
Japan	+ 8.18 Nov	+ 120.5	+ 120.0 Nov	2.5	2.2	141.0	150.5	118	106	173	109	–	-6.0
Netherlands	+ 1.01 Oct§	+ 12.5	+ 13.9 Q3	4.9	4.4	98.3	98.6	2.37	2.18	3.49	2.20	2.02	1.6
Spain	− 3.40 Oct	− 39.5	− 19.2 Oct	-3.5	-3.1	74.5	74.7	179	165	263	166	152	-0.3
Sweden	+ 1.15 Nov	+ 14.6	+ 5.9 Nov	2.1	2.1	79.2	82.6	9.57	8.49	14.1	8.90	8.14	3.4
Switzerland	− 0.07 Nov§	− 1.1	+ 32.5 Q3	11.9	11.2	107.8	103.0	1.65	1.60	2.43	1.54	1.41	na
United States	− 39.49 Oct	− 434.7	− 416.5 Q3	-4.4	-4.2	114.7	105.7	–	–	1.47	0.93	0.85	2.3
Euro area	+ 3.16 Oct§	+ 16.8	− 21.9 Oct	-0.3	-0.2	80.9	82.0	1.07	0.99	1.58	–	0.91	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.95 Nov§	+ 13.3	+ 8.9 Nov	na	na	78.2	78.1	6.29	5.89	9.26	5.85	5.35	4.0
Greece	− 1.91 Q2	− 6.8	− 7.6 Sep	na	na	57.6	59.5	360	327	530	335	306	-1.0
Iceland	− 0.03 Nov§	− 0.5	− 0.7 Q2	na	na	na	na	84.2	72.5	124	78.3	71.7	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.9 Q2	na	na	88.2	88.4	0.83	0.78	1.22	0.77	0.71	5.6
Luxembourg	− 0.18 Oct	− 2.6	− 1.6 Q3	na	na	99.4	99.7	42.7	39.9	62.9	39.7	36.3	na
New Zealand	− 0.19 Nov§	− 1.2	− 3.3 Q3	na	na	81.4	86.4	2.24	1.94	3.30	2.08	1.91	0.5
Norway	+ 2.17 Nov	+ 25.5	+ 19.6 Oct	na	na	93.4	94.5	8.77	8.00	12.9	8.16	7.46	14.0
Portugal	− 0.94 Aug§	− 14.7	− 11.4 Oct	na	na	89.6	89.7	212	199	312	197	180	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. §OECD estimate. ‡Not seasonally adjusted.

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STOCKMARKETS

Jan 18th 2001
From The Economist print edition

The Nasdaq Composite index rose by 6.3%, as technology and telecoms shares recovered. The Nasdaq has climbed by 17.1% since the Fed cut interest rates on January 3rd. Frankfurt, Milan and Paris also rose this week, by 5.3%, 4.2% and 4.0%. The Topix gained 2.1%.

Market indices	Jan 17th	2000-01 high	2000-01 low	% change on one week	% change on one year	% change on record high	Dec 31st 1999 in local currency	Dec 31st 1999 in $ terms
Australia (All Ordinaries)	3,198.4	3,330.4	2,920.0	+ 0.4	+ 3.0	– 4.0	+ 1.5	– 14.5
Austria (ATX)	1,102.0	1,236.1	1,029.4	+ 1.8	– 5.7	– 36.6	– 8.0	– 14.6
Belgium (Bel 20)	2,977.5	3,340.4	2,532.2	– 0.1	nil	– 19.1	– 10.9	– 17.3
Britain (FTSE 100)	6,197.4	6,930.2	5,994.6	+ 2.3	– 3.8	– 10.6	– 10.6	– 18.3
Canada (Toronto Composite)	8,879.4	11,388.8	8,114.2	+ 3.2	+ 2.8	– 22.0	+ 5.5	+ 1.4
Denmark (Copenhagen SE)	960.6	1,039.0	755.1	+ 2.6	+ 24.4	– 7.5	+ 24.0	+ 14.7
France (SBF 250)	3,743.3	4,390.7	3,512.8	+ 4.0	+ 2.6	– 14.7	– 1.8	– 8.8
Germany (Xetra DAX)	6,653.4	8,065.0	6,200.7	+ 5.3	– 6.2	– 17.5	– 4.4	– 11.2
Italy (BCI)	1,927.4	2,182.3	1,666.4	+ 4.2	+ 9.1	– 11.7	+ 6.1	– 1.5
Japan (Nikkei 225)	13,667.6	20,833.2	13,201.1	+ 1.7	– 27.7	– 64.9	– 27.8	– 36.8
(Topix)	1,280.4	2,507.6	1,230.1	+ 2.1	– 21.5	– 55.6	– 25.7	– 34.9
Netherlands (EOE)	642.3	701.6	612.4	+ 1.9	nil	– 8.4	– 4.3	– 11.2
Spain (Madrid SE)	951.7	1,146.2	857.9	+ 3.7	– 4.5	– 17.0	– 5.6	– 12.4
Sweden (Affarsvarlden Gen)	4,999.9	6,960.6	4,558.5	+ 6.4	– 10.7	– 28.2	– 9.1	– 18.8
Switzerland (Swiss Market)	7,972.7	8,377.0	6,781.4	+ 1.4	+ 8.7	– 5.2	+ 5.3	+ 2.1
United States (DJIA)	10,584.3	11,723.0	9,796.0	– 0.2	– 7.9	– 9.7	– 7.9	– 7.9
(S&P 500)	1,329.6	1,527.5	1,264.7	+ 1.2	– 8.7	– 13.0	– 9.5	– 9.5
(Nasdaq Comp)	2,682.8	5,048.6	2,291.9	+ 6.3	– 35.4	– 46.9	– 34.1	– 34.1
Europe (FTSE Eurotop 300) *	1,531.7	1,705.0	1,472.5	+ 2.9	+ 0.4	– 10.2	– 3.3	– 10.2
Euro area (FTSE Ebloc 100) *	1,399.1	1,550.5	1,277.7	+ 3.8	+ 3.7	– 9.8	+ 1.0	– 6.2
World (MSCI) †	1,219.4	1,448.8	1,178.2	+ 1.4	– 12.0	– 15.8	na	– 14.2
World bond market (Salomon) ‡	440.1	447.8	414.8	– 0.9	+ 1.7	– 4.3	na	+ 0.7

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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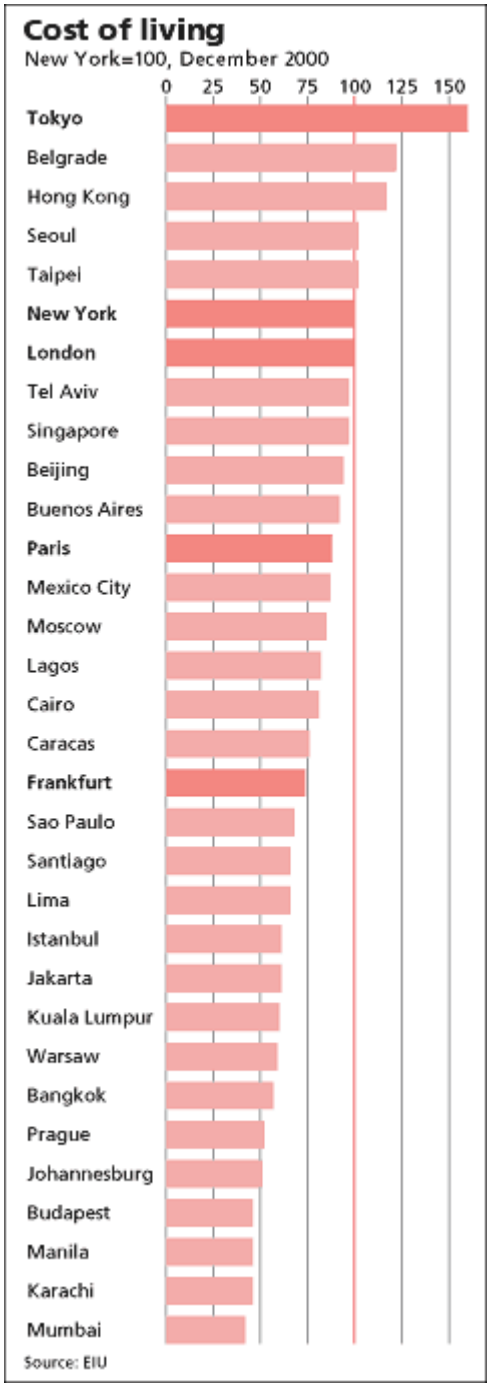
LIVING COSTS

Jan 18th 2001
From The Economist print edition

The scarcity of many goods in Belgrade means that the cost of living in the Serbian capital is more than 20% higher than it is in New York, according to a survey by the Economist Intelligence Unit, a sister company of *The Economist*. The comparison is meant to provide a guide to companies that are sending executives and their families overseas. Belgrade apart, Eastern Europe remains a relatively cheap billet. Other expensive cities are mainly in East Asia: Tokyo remains the priciest, with living costs more than 50% higher than New York's. South-East Asian cities are generally much cheaper than their counterparts farther north. Emerging markets in South America tend to be on the steep side. Thanks to the weakness of the euro for most of last year, it now costs more to live in Buenos Aires than in Paris, and Caracas is a pricier posting than Frankfurt.



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FINANCIAL MARKETS

Jan 18th 2001
From The Economist print edition

Taipei rose by 6.1%, including a one-day gain of 5.3% on January 16th following news that a fourth nuclear-power plant might be built. Fears that the collapse of President Estrada's impeachment trial would lead to civil unrest pulled Manila down by 4.9%. Moscow rebounded by 9.9% after OPEC's decision to cut oil production.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 17th		Dec 31st 1999	
	Jan 17th	year ago	Jan 17th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.2	5.40	2,152.6	− 4.3	+ 48.3	+ 48.3
Hong Kong	7.80	7.78	11.5	5.47	15,261.5	− 1.1	− 10.0	− 10.3
India	46.4	43.6	68.4	8.91	4,083.4	+ 0.9	− 18.4	− 23.5
Indonesia	9,450	7,350	13,919	14.95	414.7	− 0.7	− 38.7	− 54.3
Malaysia	3.80	3.80	5.60	3.30	679.7	nil	− 16.3	− 16.3
Philippines	54.4	40.7	80.1	19.09	1,458.6	− 4.9	− 31.9	− 49.5
Singapore	1.73	1.68	2.55	2.67	1,907.2	− 3.2	− 23.1	− 26.1
South Korea	1,278	1,134	1,882	6.37	595.8	+ 6.2	− 42.0	− 48.6
Taiwan	32.6	30.8	48.0	5.25	5,770.0	+ 6.1	− 31.7	− 34.4
Thailand	43.2	37.4	63.7	3.13	315.0	+ 7.3	− 34.6	− 43.2
Argentina	1.00	1.00	1.47	8.15	510.6	+ 3.3	− 7.0	− 6.9
Brazil	1.96	1.80	2.89	15.65	17,191.0	+ 1.6	+ 0.6	− 8.0
Chile	572	516	843	4.36*	5,055.6	+ 2.1	− 2.2	− 9.4
Colombia	2,236	1,939	3,293	13.54	711.5	+ 0.2	− 28.7	− 40.2
Mexico	9.89	9.41	14.6	18.39	6,078.3	+ 4.5	− 14.7	− 18.3
Peru	3.52	3.50	5.2	11.47	1,252.5	+ 1.4	− 31.8	− 31.9
Venezuela	699	653	1,030	12.54	7,701.0	+ 4.3	+ 42.1	+ 31.9
Egypt	3.84	3.43	5.66	9.09	7,293.4	− 0.5	− 44.0	− 50.1
Israel	4.11	4.09	6.05	5.93	477.5	+ 4.3	− 2.0	− 0.8
South Africa	7.83	6.11	11.5	10.45	8,746.0	+ 2.7	+ 2.4	− 19.5
Turkey	674,170	547,275	992,985	46.00	10,944.8	− 5.2	− 28.0	− 42.1
Czech Republic	38.2	35.7	56.2	5.34	510.8	+ 4.6	+ 4.3	− 1.8
Hungary	285	253	420	11.29	8,123.3	+ 4.7	− 7.9	− 17.9
Poland	4.12	4.10	6.07	19.00	16,981.7	− 0.1	− 6.1	− 5.7
Russia	28.4	28.7	41.9	25.00	170.0†	+ 9.9	− 1.3	− 4.3

*Inflation-adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Jan 18th 2001
From The Economist print edition

Poland's industrial output fell by 3.3% in November, slowing the year-on-year growth to 4.6%, from 7.1% in October. In the 12 months to December, inflation eased to 8.5% in Poland and quickened to 20.2% in Russia. Israeli prices were unchanged in 2000 compared with 1999—the first year of zero inflation in the country's history.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.4 Q4	+10.4 Dec	+ 1.5 Dec	+24.1 Dec	+15.7 1999	163.9 Nov	156.8
Hong Kong	+10.4 Q3	− 0.1 Q3	− 2.0 Nov	−10.6 Nov	+ 9.2 Q3	107.5 Dec	96.3
India	+ 7.2 Q4†	+ 2.7 Nov	+ 2.7 Nov	− 9.0 Nov	− 5.6 Q3	37.3 Nov	32.0
Indonesia	+ 5.1 Q3	+38.4 Q4†	+ 9.4 Dec	+28.6 Nov	+ 6.2 Q1	29.0 Nov	26.3
Malaysia	+ 7.7 Q3	+11.1 Nov	+ 1.4 Dec	+16.8 Nov	+11.3 Q2	29.6 Nov	29.8
Philippines	+ 4.8 Q3	+21.0 Oct	+ 6.6 Dec	+ 5.7 Nov	+ 9.1 Aug	12.5 Oct	12.8
Singapore	+10.5 Q4	+17.1 Nov	+ 2.0 Nov	+ 4.0 Nov	+21.6 Q3	77.5 Nov	74.3
South Korea	+ 9.2 Q3	+ 6.4 Nov	+ 3.2 Dec	+12.1 Dec	+11.7 Nov	96.2 Dec	74.0
Taiwan	+ 6.6 Q3	+ 1.6 Nov	+ 1.7 Dec	+ 8.4 Dec	+ 7.5 Q3	108.2 Nov	103.5
Thailand	+ 2.6 Q3	− 2.0 Nov	+ 1.3 Dec	+ 5.8 Nov	+ 9.5 Nov	31.7 Nov	32.1
Argentina	nil Q3	− 4.6 Nov	− 0.7 Dec	+ 0.6 Nov	−11.4 Q2	22.4 Nov	24.5
Brazil	+ 4.5 Q3	+ 4.9 Nov	+ 5.3 Dec	− 0.7 Dec	−24.9 Nov	32.5 Nov	42.2
Chile	+ 5.8 Q3	− 0.8 Nov	+ 4.7 Nov	+ 1.1 Nov	− 0.7 Q3	14.2 Nov	14.1
Colombia	+ 3.1 Q3	+10.3 Oct	+ 8.8 Dec	+ 2.2 Oct	+ 0.1 Q2	8.1 Dec	7.6
Mexico	+ 7.1 Q3	+ 4.6 Nov	+ 9.0 Dec	− 7.6 Nov	−16.4 Q3	34.7 Nov	31.7
Peru	+ 0.1 Nov	+ 0.9 Nov**	+ 3.7 Dec	− 0.4 Nov	− 1.6 Q3	8.6 Oct	9.0
Venezuela	+ 3.3 Q3	na	+ 13.4 Dec	+14.4 Jul	+11.8 Q3	14.3 Oct	11.8
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.5 Oct	−10.8 Q3	− 0.9 Q3	13.3 Sep	15.9
Israel	+ 7.3 Q3	+ 1.6 Oct	nil Dec	− 6.9 Dec	− 0.7 Q3	23.1 Dec	22.6
South Africa	+ 4.5 Q3	+ 3.6 Nov	+ 7.1 Nov	+ 2.6 Nov	− 0.7 Q3	6.1 Oct	5.9
Turkey	+ 7.4 Q3	+10.5 Nov	+ 39.0 Dec	−25.7 Oct	− 9.2 Oct	18.8 Nov	22.7
Czech Republic	+ 2.2 Q3	+ 4.3 Nov	+ 4.0 Dec	− 3.1 Nov	− 1.9 Q3	13.1 Dec	12.9
Hungary	+ 4.6 Q3	+13.4 Nov	+ 10.1 Dec	− 2.2 Nov	− 0.6 Nov	10.8 Nov	10.9
Poland	+ 3.3 Q3	+ 4.6 Nov	+ 8.5 Dec	−14.4 Oct	−11.6 Oct	24.6 Nov	24.5
Russia	+ 7.9 Q3	+ 7.6 Nov	+ 20.2 Dec	+57.3 Oct	+43.8 Q3	24.0 Nov	7.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	+ 4.2 Jun	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.1 Sep	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.0 Oct	+24.9 1999	− 1.7 1999	16.4 Sep	14.1

*Excluding gold, except Singapore; IMF definition. †1999. ‡Year ending June. **New series

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